

The Incorporated Accountants' Journal.

THE OFFICIAL ORGAN OF
The Society of Incorporated Accountants
and Auditors



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Professional Notes.

At the meeting of the Council of the Society of Incorporated Accountants and Auditors immediately following the 46th Annual General Meeting of members, Mr. Henry Morgan, F.S.A.A., was unanimously re-elected President of the Society, and Mr. E. Cassleton Elliott, F.S.A.A., was unanimously re-elected Vice-President.

The interest in the proceedings at the 50th annual general meeting of the Institute of Chartered Accountants suffered somewhat from its nearness to the celebrations in connection with the jubilee of the granting of the Charter, to which the President, Mr. Harold Fitch Kemp, made reference at the outset of his address. The enlargement of the Institute's building by its extension over the adjoining site and the planning of the "Oak Hall" for important meetings, completed a work which Mr. Fitch Kemp claimed was worthy of the Institute. The publication of the report of the Departmental Committee appointed by the Board of Trade was, in Mr. Kemp's opinion, an event of outstanding importance to the profession, and he concurred in the view expressed that registration of accountants would not be in the public interest. The President made some graceful references to Lord Plender's peerage, and deplored the loss during the year of two valued members of the Council, Mr. A. C. Harper (the last survivor of the signatories to the petition for the Charter) and Mr. D. S. Fripp, "an understanding examiner and helpful lecturer." The unanimous adoption by the members of the report and accounts was preceded by a short discussion.

The Jubilee Banquet of the London Chamber of Commerce was held at the Guildhall on Tuesday, May 19th, when the President, Lieut.-Col. The Lord Herbert Scott, presided over a distinguished company, the guest of honour being H.R.H. Prince George, K.G., who delivered an interesting and stirring address on his recent travels, when he accompanied H.R.H. the Prince of Wales on his journey to the South American Continent. The President of the Institute, Mr. H. Fitch Kemp, and the President of the Society, Mr. Henry Morgan, were both present as guests of the Chamber.

The provisions of the Finance Bill this year are unusually brief so far as direct taxation is concerned. Apart from the fixing of the rates of Income Tax and Sur Tax, the only important section is that which alters the instalments by which Income Tax is payable by firms and individuals under schedules B, D and E, so as to make three quarters of the tax payable on January 1st and one quarter on July 1st, instead of one half on each of these dates as hitherto.

The main portion of the Bill, which is both lengthy and complicated, is devoted to the formulation of a scheme for the taxation of land values. Under this scheme no tax will be levied

until the year 1933-34, when an assessment of one penny in the pound on the capital value of the land will be imposed. In the meantime, the valuation which is necessary in order to bring this taxation into operation will be proceeded with, and for that purpose the Commissioners of Inland Revenue are empowered to take steps to ascertain the value of every land unit, which value is defined as meaning the amount which the fee simple thereof with vacant possession might have been expected to realise upon a sale in the open market on the valuation date on the assumption that there were not upon the unit any buildings or growing crops and without taking into account the value of minerals, shooting or fishing rights, tillages or manure. Where a land unit comprises agricultural land, both the land value and the cultivation value have to be ascertained, the cultivation value being the value on the assumption that there is a restriction imposed by law permanently prohibiting the use of the land for any purpose other than agriculture.

For the purpose of charging the tax, clause 14 (2) provides that the value of any land unit comprising agricultural land is to be reduced by the amount, if any, of the cultivation value thereof. The effect of this will be to exclude entirely from assessment land which has a cultivation value only.

Exemption is also granted by clause 20 (3) to any person where the tax borne by him in respect of all his land units (after deducting recoveries) does not exceed 10s. This, at a penny in the pound, represents land of the capital value of £120. Is there any reason why the £120 should not be allowed as an abatement as well as an exemption? Why should a land value of £125 be taxed on the full amount and a value of £120 entirely escape?

With certain exceptions, every piece of land in separate occupation at the valuation date is to be treated as a land unit, but for the purpose of taxation there are a number of exemptions set forth in clause 19. These exemptions include land owned by any Government department, railway, canal, tramway, gas or other similar public undertaking; also land used in connection with churches, hospitals and other similar institutions; likewise land used as a churchyard or burial ground. Clause 8 (6) provides that any such land which is exempt from taxation at the valuation date shall not be valued at that date, but if it afterwards becomes subject to

taxation, a valuation is to be made at the date when it becomes chargeable.

By clause 14, the person to be assessed is the owner of the unit on the first day of January in the year of charge, and clause 26 defines "owner" to mean—

- (a) In relation to any land subject to a lease granted for a term exceeding 50 years which has commenced, the estate owner in respect of the term, or if there are two or more such leases, the estate owner in respect of the term which will first expire; and
- (b) In relation to any other land, the estate owner in respect of the fee simple of the land.

It would thus appear that where a lease is granted for a term exceeding 50 years, the leaseholder is regarded as the owner, while in all other cases it is the freeholder. But although the leaseholder may be the person to be assessed, he is by clause 15 empowered to recover from the reversioner the amount of the tax or one-twelfth of a year's rent, whichever is the less. The tax will thus fall upon the freeholder, except where there is only a very small ground rent, in which case a portion may become chargeable on the leaseholder.

The term "reversioner" is defined as meaning the person who would have been chargeable as owner or as mortgagee if no lease had existed, and as this definition applies as respects "any lease" for the purpose of clause 15, it would seem that the right to recover from the freeholder holds good, although the term of the lease may exceed 50 years.

In circumstances where the land tax becomes payable by a mortgagee, the amount of the tax so paid is to be a charge on the mortgaged property with priority over all other charges and with interest at 5 per cent. per annum.

The provisions of the Bill bristle with reservations and exceptions and will inevitably give rise to numerous questions of interpretation. While this will incidentally provide a rich harvest for the legal profession, it will also place a very serious handicap on all dealings in land and property. The uncertainty which will prevail as to the liabilities which pass to a purchaser will prevent agreements being entered into for the purchase of property where any substantial value attaches to the land, as, apart from other problems, no one will know when the tax of a 1d. in the pound may be increased.

A decision of some importance was given last month by Mr. Justice Eve in the case of *McLintock v. Westminster Electric Supply Corporation, Limited*, regarding the rights and obligations of a receiver for debenture holders in relation to the supply of electricity. The case related to the insolvency of Gamages (West End), Limited, and is fully dealt with by us this month in a leading article, but the general effect may be briefly stated as being that, while this decision stands, a receiver on behalf of debenture holders of a limited company will not be entitled to demand a supply of electricity without paying for outstanding arrears.

In our issue of April last we referred to the case of *British Mexican Petroleum Company, Limited, v. Jackson (Inspector of Taxes)*, in which certain debts of a limited company were released by two other companies who were closely associated with it by the ownership of shares, and Mr. Justice Rowlatt, reversing the finding of the Special Commissioners, decided that the cancelled debts did not constitute a profit assessable for Income Tax. The matter has now come before the Court of Appeal, and Mr. Justice Rowlatt's decision has been affirmed. The Master of the Rolls, in delivering judgment, said that the Commissioners seemed to have overlooked entirely the provision of the agreement under which the debts were waived, and to have failed to observe that it had a distinct purpose, namely, to afford the company relief by, in effect, giving them new capital. In those circumstances, it seemed to him that the Commissioners were wrong in law, as there were no materials on which they could reach the decision that they did.

In conclusion, he said that with regard to the decisions which had been cited, they all took a line originating in the *Newcastle Brewery* case and followed in a number of other cases, but in those cases there was no arrangement similar to that under consideration where a release was given, not by way of return of something which had been taken out in a previous accounting period, but which was by the terms of a new bargain designed to afford new capital and required to be placed to the relief of the depreciation account.

An interesting point in connection with a Bill of Exchange arose before Mr. Justice Wright in the Chancery Division recently in the case of *National Sales Corporation, Limited, v. Bernardi*. As the result of arrangements made at a conference of the parties concerned, the Corporation

drew a bill on a customer which was agreed to be backed by Mr. Bernardi. It transpired, however, that the Corporation, as drawers of the bill, had endorsed it below instead of above Mr. Bernardi's signature and the latter claimed that the bill was void as against him, but his Lordship would not accept this plea and held that the endorsement was made to give effect to the arrangement which had been arrived at and the position of the signatures was immaterial. If the mere blunder committed by the drawers in putting their name in the wrong place defeated their rights, such a result falsified the intention of the parties as disclosed by the evidence and could not be upheld. Mr. Bernardi accordingly failed in his contention.

In our issue of August, 1929, we referred to the judgment of the County Court in the case of *Major Richard Sydney Wilson v. Mr. Duncan Edward Campbell, Incorporated Accountant Wolverhampton*, in which the plaintiff sought to have Mr. Campbell removed from his position as Trustee under a deed of arrangement on account of incompetency. On that occasion the Court found that there was not the slightest ground for the allegation and that the evidence showed that in his very difficult task Mr. Campbell was displaying care and business competency in his efforts to administer and realise the debtors' estate. The case subsequently came before Mr. Justice Eve in the form of an action by the plaintiff to set aside the deed of assignment, but the case was dismissed. Major Wilson appealed against the decision, and the Court of Appeal, consisting of Lords Justices Scrutton, Greer and Slesser, have again decided against him.

The ground of the action was the technical point that a majority in number and value of the creditors did not assent to the deed of assignment. In delivering judgment, Lord Justice Scrutton said that Major Wilson's complaint in his original action was that Mr. Campbell had been guilty of negligence and improper conduct with regard to the realisation of the estate, but every allegation relevant to the claim against the defendant had been found by the Judge against the plaintiff and there had been no appeal on those matters. The allegations of negligence and improper conduct had all gone, but by an amendment of the statement of claim it was now said that the deed of arrangement was void because a majority in number and value of the creditors did not assent. His Lordship said that it was impossible for the Court to interfere with the judgment of Mr. Justice Eve on that point,

and the Court was the more satisfied with that conclusion because all the serious allegations had been decided against the plaintiff, and this somewhat technical point was only raised at the last moment. The appeal was accordingly dismissed.

An important point with regard to Income Tax liability, where a business has been discontinued, has just been decided by the Court of Appeal in the case of *Manson v. Wesley*. The respondent, who had been in the habit of making up his accounts to June 30th each year, sold his business on July 2nd, 1928, to a limited company. The old business having ceased, the Income Tax assessment for the year 1928-29 was revised in accordance with sect. 31 of the Finance Act, 1926, and based upon the profits for the period from April 5th, 1928, to the date of discontinuance. The assessment for the preceding year was also revised to the profits for the twelve months ended April 5th, 1928, by taking three quarters of the profits for the year ended June 30th, 1928, and one quarter of the profits for the year ended June 30th, 1927. The respondent, however, contended that the assessment should be based upon the profits shown by the accounts for the year ended June 30th, 1927, in accordance with sect. 34 (a) of the Finance Act, 1926.

Both the Special Commissioners and Mr. Justice Rowlatt decided in favour of the respondent, but the Court of Appeal have now taken the opposite view and upheld the contention of the Inland Revenue Authorities. In the course of his judgment the Master of the Rolls pointed out that sect. 31 (b) of the Finance Act, 1926, specifically mentioned "the year ending on the fifth day of April," and he considered that sect. 34, which laid down the method of computing assessments based upon the profits of a preceding year, was not applicable in the present case, in which the assessment had to be based upon the profits of the year of assessment.

The question of the liability to Income Tax of voluntary gifts is continually arising and the circumstances of a particular case are often sufficient to distinguish it from what may appear to be a precedent. In the case of *Stedeford (Inspector of Taxes) v. Beloe*, the Headmaster of a College was granted a voluntary pension by the Council of the College. There was no method by which he could have qualified for a pension and the Council had the right at any time to cease making the payment. The Court of Appeal,

affirming the judgment of Mr. Justice Rowlatt, decided that the pension was not assessable. In delivering judgment, the Master of the Rolls reviewed a number of previous decisions, and said it was important to notice that the Council of the College had the right to rescind the payment at any moment. But although a payment might be voluntary on the part of the persons who made it, it might still be liable to Income Tax. The test was whether, from the standpoint of the person receiving it, it accrued to him in virtue of his office. In the present case the services had, in fact, ended. It was difficult, therefore, to say that the defendant had received the payment "by virtue of his office." The case was apparently treated as a test case, the Attorney-General having undertaken that the costs of the respondent as between solicitor and client would be paid by the Crown.

In giving evidence before the Joint Parliamentary Committee which is inquiring into the Wills and Intestacies (Family Maintenance Bill), Sir Oswald Simpkin, the Public Trustee, said he considered the Bill was unnecessary and inexpedient. Under the provisions of the Bill a man would be compelled to leave a portion of his money to his children, and Sir Oswald thought it was monstrous that a man should not be allowed to leave the whole of his money to his wife and trust her to look after the children. The Bill, he considered, would encourage matrimonial adventurers of both sexes. An adventurer with a vested right of succession might be tempted to accelerate the succession, and the Bill would, he considered, break up a good deal of family life.

THE SOCIETY'S 46TH ANNUAL MEETING.

IN this issue we publish the forty-sixth Annual Report of the Council, together with the accounts of the Society of Incorporated Accountants and Auditors for the year 1930. The accounts show a total income for the past year of £26,637, as against £25,092 in 1929. After transferring the sum of £1,315 to the reserve for redemption of debentures on Incorporated Accountants' Hall, there is a surplus of income over expenditure for the year of £1,675. The membership of the Society at the close of 1930 numbered 5,427, consisting of 1,450 Fellows, 3,973 Associates, and four Honorary Members. The examination statistics showed that 1,896 candidates sat for the examinations in 1930, of whom 671 presented themselves for the Final, 883 for the Intermediate, and 342 for the Preliminary. The passes

in the Final examination were 47 per cent., in the Intermediate 52 per cent., and in the Preliminary 58 per cent., the respective averages for the three years 1928, 1929 and 1930 being: for the Final 47 per cent., for the Intermediate 50 per cent., and for the Preliminary 60 per cent.

Having regard to the larger question of the industrial and commercial position, upon which the prosperity of British accountancy must depend, the President, Mr. Henry Morgan, in our opinion, did well to devote the main part of his speech to subjects which occupy very largely the minds of well-informed members of the profession. Mr. Morgan dealt first with rationalisation, and said that in his opinion members of the accountancy profession regarded it with misgivings on the ground that it was unlikely to bring permanent advantage to our sorely depressed industries. After expressing his reasons for the conclusion at which he arrived, he said that the amalgamation of large numbers of companies into huge combines had operated harshly as regarded many practising accountants. The auditors of constituent companies who had acted in that capacity for many years past, and generally had contributed towards the creation or building up of the businesses, were often displaced in favour of one of the large firms who were appointed to deal with the whole of the audits of the combine. In Mr. Morgan's opinion the code of professional ethics governing the profession should involve the discontinuance of any action that operated harshly or unfairly upon other members.

In this connection Mr. Morgan felt that it must be frequently within the power of the leading accountancy firms to set their faces against the displacement of auditors or accountants under circumstances such as he had indicated. We hope that his observations, for which he has large support, will not be misunderstood and that consideration will be given to a subject which has been the cause of disturbance, not to say suffering, in the minds of many esteemed members of the profession who have regarded their clients as friends and have worked for them with a devotion which has left nothing to be desired. It is true that bad illnesses sometimes require desperate treatment, but at the same time some of the remedies which are now fashionable have a tendency to discard individualism upon which prosperity was formerly achieved in favour of reorganisation on socialistic lines, although the authors of many of these schemes appear to be quite unconscious of the direction in which they are being led.

Mr. Henry Morgan then turned his attention to the grave position of trade and industry as

evidenced by the Revenue and foreign trade returns, the railway traffic figures, and the rapidly increasing unemployment. After reviewing the intense world depression and collapse in the price of commodities, he said that what was exercising the minds of so many people was that when recovery came would this country be in a position to make full use of the opportunity which would present itself. The burdens placed on industry were such as to dishearten and discourage owners and managers. Taxation on a scale far heavier than in other great industrial countries was the result of the extravagant national expenditure, and the fear of the Chancellor of the Exchequer himself that direct taxation had reached the limit of what commerce and industry could stand was only too well founded.

After discussing the standard of living amongst all classes of the community and the relatively high rates of wages compared with those ruling in the countries which were our competitors, Mr. Morgan said that political interference was a further handicap from which industry suffered. High rates of taxation operated to discourage the starting of new industries, and the principle of having to bear the whole of a loss but of having to pay to the Revenue from 25 per cent. to 50 per cent. of a profit, did not appeal to business men. Modern methods of mass production necessitated substantial capital to meet heavy initial expenditure. In circumstances such as the present it was almost impossible to obtain capital for new industries, for the investing public was not readily inclined to forget the manner in which it was exploited and plundered two or three years ago by new companies. Mr. Morgan then recapitulated the statistics in regard to company promotion in the year 1928 which he gave at Sheffield a few months ago, and emphasised his view that further revision of the Companies Act was urgently necessary in the light of the grave abuses that had manifested themselves during the last two or three years.

Mr. Morgan concluded his speech by asserting the need for ensuring the independence of the auditor by making him in fact what he is in law, the servant of the shareholders and not of the directors. He said that the victimisation of an auditor by the board was not an unknown thing, and that another danger was that of an auditor being made responsible for acts attributable to the directors. He protested against any counterpart being found in joint stock enterprise for the political scapegoat, and he said it became a matter for the profession whole-heartedly to support an auditor who might find himself confronted by legal processes which should not be directed against him.

A useful discussion followed the President's address, in which some of the younger practising members of the Society took part. It was refreshing to note that these younger Incorporated Accountants are prepared to face the future with confidence and hope. This is exactly as it should be, as their elders are somewhat worn with the anxieties of the world war and the difficulties, economic and otherwise, of the so-called peaceful days which have been experienced during the past twelve years.

WHAT IS WILFUL DEFAULT?

In the Companies Act, 1929, the Trustee Act, 1925, and numerous other statutes, unwary persons are threatened with liabilities if they are guilty of wilful defaults. The meaning of this common phrase is not defined by the statutes in which it appears, and the omission is probably deliberate, as, were the phrase defined, dishonest persons would conduct themselves in such a manner as to avoid the spirit of the law. The necessity for the omission is regrettable, since it must frequently give rise to litigation, and a judgment upon the point is therefore of extreme importance, as it indicates at least the principles upon which the Courts are likely to construe the phrase.

In *re City Equitable Fire Insurance Company* (1925) (1 Ch., 407) the Court of Appeal held that a person is not guilty of wilful neglect or default unless he is conscious that, in doing the act complained of, he is committing a breach of duty or is recklessly careless whether it is a breach of duty or not. In other words, the phrase implies either knowledge that the act is wrong, or recklessness, the latter term being somewhat ambiguous.

This useful, though necessarily not too lucid, explanation of the phrase has recently received the approval of Maugham (J.), in *re Vickery; Vickery v. Stephens* (1931) (W.N., 35). The facts in this case were briefly as follow.

An executor who was not a business man employed a solicitor, of whom he knew nothing good or evil, to obtain his grant of probate, and allowed him to realise certain Savings Certificates and withdraw moneys from the Post Office Savings Bank. Some three months later he was told that the solicitor had been suspended by the Law Society. He began to press the solicitor to complete the administration, but shortly afterwards he went abroad, after writing to inform the solicitor that he had authorised one of the beneficiaries to act in his place. This beneficiary, after some delay, urged the executor to employ another solicitor, but the existing solicitor, by

promising a settlement, dissuaded him from taking this step. The promise was not kept, the solicitor absconded, the residue was lost, and the executor was sued for damages.

Now sect. 28 of the Trustee Act, 1925, authorises executors to employ agents as and when they think fit, and provides that they shall not be liable for the acts, neglects or defaults of such agents. But the section does not exempt an executor from liability for damage caused by his own neglect or default.

On the other hand, sect. 30 (1) of the Act provides that an executor is not to be liable for loss unless the same is due to his own "wilful default," and in *Vickery's* case everything hinged upon the meaning of this term, for the Court had in effect to decide whether the executor's conduct was wilful default or not.

Maugham (J.) came to the conclusion that there had been no wilful default, and that the executor was not liable. He adopted the definition of the phrase given in the *City Equitable* case, and distinguished errors of judgment from consciousness of a breach of duty and recklessness.

It seems, therefore, that something closely akin to a deliberate fraud must be proved before an executor or a trustee will be held liable for damage done to the estate through his own wilful default.

RECEIVER'S LIABILITY FOR ELECTRICITY AND GAS.

A POINT of considerable interest to receivers and managers for debenture holders arose in the recent case of *Gamages (West End) Limited*. On April 17th Sir William McIntock was appointed receiver and manager by the Court. At the date of his appointment the company owed to the Westminster Electric Supply Corporation a sum of £1,179 under a special contract for the supply of electric current. The Corporation gave notice of their intention to cut off the supply unless arrangements for the payment of this debt were made, and Sir William applied to the Court for an injunction to restrain the Corporation from carrying out their threat.

Cases of this sort are common enough, but the text-books do not deal with the rights of the receiver very clearly.

The debt due to a supplier of electric current is not a preferential debt. In a winding up it ranks for the purposes of dividend *pari passu* with other unsecured liabilities. But the supplier is in a peculiar strategic position as he is able to cut off supplies and bring the company's business to a standstill. With this peculiar

power he can, it seems, hold a pistol to the head of a receiver and manager, and threaten to extinguish the company's goodwill, unless his debt is paid in full in priority to the debts of other creditors. Is the execution of this threat lawful? Or will the Court restrain it by injunction? These are the questions receivers have to answer in such cases.

It appears that a receiver and manager appointed out of Court under express powers given by a debenture instrument or trust deed cannot obtain an injunction restraining a supplier of electric current from cutting off supplies, at any rate, where he is the agent of the company (*Paterson v. Gas Light and Coke Company* (1896) 2 Ch., 482). But where the appointment is made by the Court the position of the receiver is not so clear.

The Act of Parliament under which a statutory company is incorporated commonly imposes upon the company a duty to supply with gas or current the occupant of premises under a fresh tenancy regardless of the debts of the last occupant. If, therefore, a receiver and manager can establish his right to be regarded as a new occupant of the company's premises under a fresh tenancy, he can insist on being supplied with gas or current notwithstanding that the company's debt remains unpaid.

Now a receiver appointed by the Court is not an agent of the company. There are, therefore, grounds for the contention that he is a new occupant of the company's premises. But the cases make a distinction between (1) the appointment of a receiver containing an order that possession of the premises shall be given up to him, and (2) the appointment of a receiver not containing such an order.

In the latter case, it appears that supplies of gas and current may be cut off unless arrears are paid, as the appointment of a receiver does not create a fresh tenancy (*Husey v. London Electric Supply Company* (1902) 1 Ch., 411). But where the Court orders possession of the premises to be given up to the receiver the situation is ambiguous. It does not appear that the Courts have ever held that in such cases a fresh tenancy is created. In fact, in *Paterson v. Gas Light and Coke Company* (*supra*), the contrary opinion is expressed. But it is clear enough that, even if a fresh tenancy is created, the receiver is not entitled to supplies of gas and current unless he makes a contract with the supplier. What really remains to be determined is whether the supplier is entitled to make it a condition of this new contract that arrears shall be paid off by the receiver. The authorities give little guidance on this point, for

much must depend on the interpretation of the statute under which the supplying corporation is incorporated. But the decision of Mr. Justice Eve in the *Gamages* (*West End*) case suggests that such a condition may be imposed. If this is the law, receivers must either pay or do without further supplies: a curious dilemma where, as in the *Gamages* case, the Master refuses to give leave to pay.

FINANCE BILL.

The following are the provisions of the Finance Bill in so far as they relate to Income Tax, Sur Tax and Savings Certificates:—

PART II.

INCOME TAX.

3.—(1) Income Tax for the year 1981-82 shall be charged at the standard rate of 4s. 6d. in the pound, and, in the case of an individual whose total income from all sources exceeds £2,000, at such higher rates in respect of the excess over £2,000 as Parliament may hereafter determine.

(2) All such enactments as had effect with respect to the Income Tax charged for the year 1980-81 shall (subject to such of the provisions contained in the Finance Act, 1980, with respect to Income Tax as did not take effect with respect to the Income Tax charged for the year 1980-81) have effect with respect to the Income Tax charged for the year 1981-82.

SUR-TAX RATES FOR 1980-81.

4.—Income Tax for the year 1980-81 in respect of the excess of the total income of an individual over £2,000 shall be charged at rates in the pound which respectively exceed the standard rate by the amounts specified in the second column of the following table:—

In respect of the first £500 of the excess ..	1s. 0d.
In respect of the next £500 of the excess ..	1s. 3d.
In respect of the next £1,000 of the excess ..	2s. 0d.
In respect of the next £1,000 of the excess ..	3s. 0d.
In respect of the next £1,000 of the excess ..	3s. 6d.
In respect of the next £2,000 of the excess ..	4s. 0d.
In respect of the next £2,000 of the excess ..	5s. 0d.
In respect of the next £5,000 of the excess ..	5s. 6d.
In respect of the next £5,000 of the excess ..	6s. 0d.
In respect of the next £10,000 of the excess ..	6s. 6d.
In respect of the next £20,000 of the excess ..	7s. 0d.
In respect of the remainder of the excess ..	7s. 6d.

CONSTRUCTION OF RULE 20 OF GENERAL RULES.

5.—(1) The provisions of Rule 20 of the General Rules which authorise the deduction of the appropriate tax from any dividend paid by a body of persons, shall, in relation to a dividend paid by any body of persons, whether before or after the commencement of this Act, be construed as authorising the deduction of tax from the full amount paid out of profits and gains of the said body which have been charged to tax or which, under the provisions of the Income Tax Acts, would fall to be included in computing the liability of the said body to assessment to tax for any year if the said provisions required the computation to be made by reference to the profits and gains of that year, and not by reference to those of any other year or period.

(2) Subject as hereinafter provided, a dividend paid by a body of persons, whether before or after the com-

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In *re City Equitable Fire Insurance Company* (1925) (1 Ch., 407) the Court of Appeal held that a person is not guilty of wilful neglect or default unless he is conscious that, in doing the act complained of, he is committing a breach of duty or is recklessly careless whether it is a breach of duty or not. In other words, the phrase implies either knowledge that the act is wrong, or recklessness, the latter term being somewhat ambiguous.

This useful, though necessarily not too lucid, explanation of the phrase has recently received the approval of Maugham (J.), in *re Vickery; Vickery v. Stephens* (1931) (W.N., 35). The facts in this case were briefly as follow.

An executor who was not a business man employed a solicitor, of whom he knew nothing good or evil, to obtain his grant of probate, and allowed him to realise certain Savings Certificates and withdraw moneys from the Post Office Savings Bank. Some three months later he was told that the solicitor had been suspended by the Law Society. He began to press the solicitor to complete the administration, but shortly afterwards he went abroad, after writing to inform the solicitor that he had authorised one of the beneficiaries to act in his place. This beneficiary, after some delay, urged the executor to employ another solicitor, but the existing solicitor, by

promising a settlement, dissuaded him from taking this step. The promise was not kept, the solicitor absconded, the residue was lost, and the executor was sued for damages.

Now sect. 23 of the Trustee Act, 1925, authorises executors to employ agents as and when they think fit, and provides that they shall not be liable for the acts, neglects or defaults of such agents. But the section does not exempt an executor from liability for damage caused by his own neglect or default.

On the other hand, sect. 30 (1) of the Act provides that an executor is not to be liable for loss unless the same is due to his own "wilful default," and in *Vickery's* case everything hinged upon the meaning of this term, for the Court had in effect to decide whether the executor's conduct was wilful default or not.

Maugham (J.) came to the conclusion that there had been no wilful default, and that the executor was not liable. He adopted the definition of the phrase given in the *City Equitable* case, and distinguished errors of judgment from consciousness of a breach of duty and recklessness.

It seems, therefore, that something closely akin to a deliberate fraud must be proved before an executor or a trustee will be held liable for damage done to the estate through his own wilful default.

RECEIVER'S LIABILITY FOR ELECTRICITY AND GAS.

A POINT of considerable interest to receivers and managers for debenture holders arose in the recent case of *Gamages (West End) Limited*. On April 17th Sir William McIntock was appointed receiver and manager by the Court. At the date of his appointment the company owed to the Westminster Electric Supply Corporation a sum of £1,179 under a special contract for the supply of electric current. The Corporation gave notice of their intention to cut off the supply unless arrangements for the payment of this debt were made, and Sir William applied to the Court for an injunction to restrain the Corporation from carrying out their threat.

Cases of this sort are common enough, but the text-books do not deal with the rights of the receiver very clearly.

The debt due to a supplier of electric current is not a preferential debt. In a winding up it ranks for the purposes of dividend *pari passu* with other unsecured liabilities. But the supplier is in a peculiar strategic position as he is able to cut off supplies and bring the company's business to a standstill. With this peculiar

power he can, it seems, hold a pistol to the head of a receiver and manager, and threaten to extinguish the company's goodwill, unless his debt is paid in full in priority to the debts of other creditors. Is the execution of this threat lawful? Or will the Court restrain it by injunction? These are the questions receivers have to answer in such cases.

It appears that a receiver and manager appointed out of Court under express powers given by a debenture instrument or trust deed cannot obtain an injunction restraining a supplier of electric current from cutting off supplies, at any rate, where he is the agent of the company (*Paterson v. Gas Light and Coke Company* (1896) 2 Ch., 482). But where the appointment is made by the Court the position of the receiver is not so clear.

The Act of Parliament under which a statutory company is incorporated commonly imposes upon the company a duty to supply with gas or current the occupant of premises under a fresh tenancy regardless of the debts of the last occupant. If, therefore, a receiver and manager can establish his right to be regarded as a new occupant of the company's premises under a fresh tenancy, he can insist on being supplied with gas or current notwithstanding that the company's debt remains unpaid.

Now a receiver appointed by the Court is not an agent of the company. There are, therefore, grounds for the contention that he is a new occupant of the company's premises. But the cases make a distinction between (1) the appointment of a receiver containing an order that possession of the premises shall be given up to him, and (2) the appointment of a receiver not containing such an order.

In the latter case, it appears that supplies of gas and current may be cut off unless arrears are paid, as the appointment of a receiver does not create a fresh tenancy (*Husey v. London Electric Supply Company* (1902) 1 Ch., 411). But where the Court orders possession of the premises to be given up to the receiver the situation is ambiguous. It does not appear that the Courts have ever held that in such cases a fresh tenancy is created. In fact, in *Paterson v. Gas Light and Coke Company* (*supra*), the contrary opinion is expressed. But it is clear enough that, even if a fresh tenancy is created, the receiver is not entitled to supplies of gas and current unless he makes a contract with the supplier. What really remains to be determined is whether the supplier is entitled to make it a condition of this new contract that arrears shall be paid off by the receiver. The authorities give little guidance on this point, for

much must depend on the interpretation of the statute under which the supplying corporation is incorporated. But the decision of Mr. Justice Eve in the *Gamages (West End)* case suggests that such a condition may be imposed. If this is the law, receivers must either pay or do without further supplies: a curious dilemma where, as in the *Gamages* case, the Master refuses to give leave to pay.

FINANCE BILL.

The following are the provisions of the Finance Bill in so far as they relate to Income Tax, Sur Tax and Savings Certificates:—

PART II.

INCOME TAX.

3.—(1) Income Tax for the year 1931-32 shall be charged at the standard rate of 4s. 6d. in the pound, and, in the case of an individual whose total income from all sources exceeds £2,000, at such higher rates in respect of the excess over £2,000 as Parliament may hereafter determine.

(2) All such enactments as had effect with respect to the Income Tax charged for the year 1930-31 shall (subject to such of the provisions contained in the Finance Act, 1930, with respect to Income Tax as did not take effect with respect to the Income Tax charged for the year 1930-31) have effect with respect to the Income Tax charged for the year 1931-32.

SUR-TAX RATES FOR 1930-31.

4.—Income Tax for the year 1930-31 in respect of the excess of the total income of an individual over £2,000 shall be charged at rates in the pound which respectively exceed the standard rate by the amounts specified in the second column of the following table:—

In respect of the first £500 of the excess ..	1s. 0d.
In respect of the next £500 of the excess ..	1s. 3d.
In respect of the next £1,000 of the excess ..	2s. 0d.
In respect of the next £1,000 of the excess ..	3s. 0d.
In respect of the next £1,000 of the excess ..	3s. 6d.
In respect of the next £2,000 of the excess ..	4s. 0d.
In respect of the next £2,000 of the excess ..	5s. 0d.
In respect of the next £3,000 of the excess ..	5s. 6d.
In respect of the next £5,000 of the excess ..	6s. 0d.
In respect of the next £10,000 of the excess ..	6s. 6d.
In respect of the next £20,000 of the excess ..	7s. 0d.
In respect of the remainder of the excess ..	7s. 6d.

CONSTRUCTION OF RULE 20 OF GENERAL RULES.

5.—(1) The provisions of Rule 20 of the General Rules which authorise the deduction of the appropriate tax from any dividend paid by a body of persons, shall, in relation to a dividend paid by any body of persons, whether before or after the commencement of this Act, be construed as authorising the deduction of tax from the full amount paid out of profits and gains of the said body which have been charged to tax or which, under the provisions of the Income Tax Acts, would fall to be included in computing the liability of the said body to assessment to tax for any year if the said provisions required the computation to be made by reference to the profits and gains of that year, and not by reference to those of any other year or period.

(2) Subject as hereinafter provided, a dividend paid by a body of persons, whether before or after the com-

mencement of this Act, shall, to the extent to which it is paid out of such profits and gains as are mentioned in sub-sect. (1) of this section, be deemed, for all the purposes of the Income Tax Acts, to represent income of such an amount as would, after such deduction of tax as is authorised by the provisions of the said Rule 20, be equal to the net amount received :

Provided that the provisions of this sub-section shall not apply to a preference dividend to which sect. 12 of the Finance Act, 1930, applies, and shall have effect subject to the provisions of sub-sect. (3) of that section.

AMENDMENT AS TO PAYMENT OF TAX BY INSTALMENTS.

6.—Sub-sect. (2) of sect. 157 of the Income Tax Act, 1918 (which provides that in the cases to which that sub-section applies, income tax shall be payable in two equal instalments), shall have effect as if for the words "two equal instalments, the first on or before the first day of January in that year, or on such other day as aforesaid, and the second on or before the following first day of July" there were substituted the following words, "two instalments, the first being an amount equal to three-quarters of the tax, on or before the first day of January in that year, or on such other day as aforesaid, and the second, being an amount equal to one-quarter of the tax, on or before the following first day of July."

PART IV.

EXEMPTION OF SAVINGS CERTIFICATES HELD BY PERSONS DOMICILED IN CHANNEL ISLANDS OR ISLE OF MAN FROM ESTATE DUTY.

35.—Where the holder of a war savings certificate or a national savings certificate is at the time of his death domiciled in the Channel Islands or the Isle of Man, his rights under the certificate shall, for the purposes of the enactments relating to estate duty payable in Great Britain, be deemed to be property situate out of Great Britain.

PROLONGATION OF CURRENCY OF SAVINGS CERTIFICATES.

36.—(1) Notwithstanding anything in any enactment relating to savings certificates, or in any regulation made under any such enactment or any conditions relating to the issue of any savings certificates, the Treasury may from time to time direct that the currency of any savings certificates to which the direction applies shall be prolonged to such extent and on such conditions as to interest and otherwise as may be specified in the direction :—

Provided that nothing in this section shall—

- (a) Prejudice the right of any holder of a savings certificate, if he so desires, to have the amount payable under the certificate paid to him on or before maturity ; or
- (b) Authorise the prolongation beyond March 31st, 1940, of the currency of any savings certificate issued on or before March 31st, 1922.

(2) It is hereby declared that the power of the Treasury under sub-sect. (2) of sect. 46 of the Finance Act, 1926, to make arrangements for enabling the holders of any savings certificates to exchange them for other securities includes power to make arrangements for enabling the holders of savings certificates of any issue to exchange them for savings certificates of a later issue.

(3) In this section the expression "savings certificate" means a war savings certificate or a national savings certificate, and the expression "currency" in relation to a savings certificate means the period at the expiration of which the certificate is required to be redeemed or repaid.

Society of Incorporated Accountants and Auditors.

COUNCIL MEETING.

A meeting of the Council of the Society was held at Incorporated Accountants' Hall on Tuesday, May 19th, when there were present :—Mr. Henry Morgan, President (in the chair), Mr. E. Cassleton Elliott, Vice-President ; Mr. R. Wilson Bartlett, J.P. (Newport, Mon.), Mr. R. M. Branson (Leicester), Mr. Henry J. Burgess (London), Mr. D. E. Campbell (Wolverhampton), Mr. Arthur Collins (London), Mr. W. Allison Davies, O.B.E. (Preston), Mr. F. Holliday (Leeds), Mr. E. T. Kerr (Birmingham), Mr. Edmund Lund, M.B.E. (Carlisle), Sir James Martin, J.P. (London), Mr. C. Hewetson Nelson, J.P. (Liverpool), Mr. James Paterson (Greenock), Mr. W. H. Payne (London), Mr. W. Paynter (London), Mr. A. E. Piggott (Manchester), Mr. J. Stewart Seggie (Edinburgh), Mr. Alan Standing (Liverpool), Mr. Percy Toothill (Sheffield), Mr. A. H. Walkey (Dublin), Mr. Frederic Walmsley, J.P. (Manchester), Mr. E. W. C. Whittaker, J.P. (Southampton), Mr. Richard A. Witty (London), Mr. Fred Woolley, J.P. (Southampton), Mr. A. A. Garrett, Secretary ; Mr. J. R. W. Alexander, Standing Counsel ; Mr. Ernest E. Edwards, Parliamentary Secretary.

Apologies for non-attendance were received from Mr. Thomas Keens, Mr. G. S. Pitt, Mr. R. T. Warwick, and Mr. A. E. Woodington.

COUNCIL.

The President welcomed to the Council Mr. Edmund Lund, M.B.E., Carlisle, upon taking his seat for the first time.

DINNER IN LONDON.

A report was received that the City Lands Committee of the Corporation of the City of London had granted to the Society the use of the Guildhall for a dinner of the Society to be held on Thursday, December 3rd next. It was resolved that the thanks of the Society be conveyed to the Chairman and members of the City Lands Committee.

LONDON CHAMBER OF COMMERCE—JUBILEE.

The following resolution was adopted and ordered to be forwarded to the President of the London Chamber of Commerce :—

"That the President and Council of the Society of Incorporated Accountants and Auditors send to the President, Lieut.-Colonel The Lord Herbert Scott, and the members of the Council of the London Chamber of Commerce their cordial congratulations upon the Jubilee of the Chamber and their appreciation of its work for trade and industry."

SECOND COUNCIL MEETING.

A meeting of the Council was held after the 46th Annual General Meeting of members.

ELECTION OF PRESIDENT.

Upon the motion of Mr. Frederic Walmsley, seconded by Mr. C. Hewetson Nelson, it was resolved unanimously that Mr. Henry Morgan be re-elected President of the Society for the ensuing year.

ELECTION OF VICE-PRESIDENT.

Upon the motion of Mr. Henry Morgan, seconded by Mr. E. W. C. Whittaker, Mr. E. Cassleton Elliott was unanimously re-elected Vice-President of the Society for the ensuing year.

ELECTION OF COMMITTEES.

The following Committees were elected:—

Disciplinary Committee: The President, the Vice-President, Mr. Arthur Collins, Mr. Walter Holman, Mr. Thomas Keens, Mr. W. H. Payne, Mr. G. S. Pitt, Mr. F. Walmsley, Mr. E. W. C. Whittaker, and Mr. A. E. Woodington.

Finance and General Purposes Committee: The President, the Vice-President, Mr. R. Wilson Bartlett, Mr. H. J. Burgess, Mr. Arthur Collins, Mr. Walter Holman, Mr. Thomas Keens, Mr. C. Hewetson Nelson, Mr. W. H. Payne, Mr. G. S. Pitt, Mr. Alan Standing, and Mr. A. E. Woodington.

Examination and Membership Committee: The President, the Vice-President, Mr. H. J. Burgess, Mr. Walter Holman, Mr. C. Hewetson Nelson, Mr. W. H. Payne, Mr. W. Paynter, Mr. Percy Toothill, Mr. R. T. Warwick, Mr. Richard A. Witty, Mr. A. E. Woodington, and Mr. F. Woolley.

Parliamentary Committee: The President, the Vice-President, Mr. R. Wilson Bartlett, Mr. R. M. Branson, Mr. Arthur Collins, Mr. Walter Holman, Mr. Thomas Keens, Mr. E. T. Kerr, Mr. C. Hewetson Nelson, Mr. G. S. Pitt, Mr. E. W. C. Whittaker, and Mr. Richard A. Witty.

Hall Committee: The President, the Vice-President, Mr. Thomas Keens, Mr. C. Hewetson Nelson, Mr. W. Paynter, Mr. G. S. Pitt, Mr. R. T. Warwick, Mr. A. E. Woodington.

Articles and Bye-Laws Committee: The President, the Vice-President, Mr. D. E. Campbell, Mr. W. Allison Davies, Mr. W. Paynter, Mr. Alan Standing, Mr. Percy Toothill, Mr. R. T. Warwick, Mr. E. W. C. Whittaker.

District Societies Committee.—The President, the Vice-President, Mr. R. Wilson Bartlett, Mr. R. M. Branson, Mr. D. E. Campbell, Mr. W. Allison Davies, Mr. F. Holliday, Mr. Walter Holman, Mr. Thomas Keens, Mr. E. T. Kerr, Mr. W. Paynter, Mr. R. T. Warwick, Mr. Richard A. Witty, Mr. F. Woolley.

EXAMINERS.

The following were elected Examiners of the Society:—Sir Josiah Stamp, G.B.E., Sc.D., D.Sc., Mr. W. H. Coates, LL.B., B.Sc., Ph.D., Mr. C. Hewetson Nelson, J.P., F.S.A.A., Mr. W. Norman Bubb, F.S.A.A., Mr. Richard A. Witty, F.S.A.A., Mr. W. Holman, F.S.A.A., Mr. Clement C. Gatley, LL.D., D.C.L., M.A., Mr. Roland Burrows, M.A., LL.D., Mr. E. T. Allen, M.A., Mr. C. B. Milne, M.A., LL.B. (Edinburgh), Mr. J. Malvern White, B.A., LL.B.

Obituary.

JAMES BENJAMIN LAPISH.

We regret to announce the death of Mr. James Benjamin Lapish, F.S.A.A., who passed away on May 21st at the age of 67. Mr. Lapish, who was senior partner in the firm of J. B. Lapish & Son, Leeds, was elected an Associate of the Society in 1897 and a Fellow in 1902. In addition to his professional activities, Mr. Lapish took a considerable interest in the affairs of the City of Leeds and was at one time a member of the City Council. His public activities were marked by considerable independence and individualism, and he was held in high respect.

Typical Problems in Trust Accounts.

A LECTURE delivered before the Incorporated Accountants' Students' Society of London and District by

MR. H. A. R. J. WILSON, F.C.A.,
INCORPORATED ACCOUNTANT.

The chair was occupied by Mr. G. ROBY PRIDIE, F.S.A.A., the Vice-President.

Mr. WILSON said: The first thing I want to deal with is the question of hotchpot. It was one of the things I dealt with in theory in a previous lecture. But I want to show you now how it works out in practice. You will remember that when a man dies intestate, then, if he has no widow, the property has to be divided equally amongst the children, and if he has a widow the children will still get the major part of the property divided amongst them. I can leave out the widow's rights this evening, and deal with those of the children.

HOTCHPOT.

The idea of hotchpot is to ensure that all the children are treated equally, and, therefore, if any child has during his father's lifetime had an advancement for the purpose of setting him up in life he has to bring that into account in sharing in the balance of the estate. Let us assume a man dies leaving an estate valued for estate duty purposes at £26,000. He has three children, A, B, and C. A has had an advance during his father's lifetime of £3,000, B has had nothing, but C has had £1,000. I want you to bear in mind that these advances for our purpose must have been with the idea of setting these children up in life; a casual present does not count as an advancement. Now these children have to share equally in the amount of the estate.

The first thing we want to know in connection with those advances is whether they were made within three years of death, or earlier than three years prior to death. If made within three years of death, then an advance becomes a liable gift *inter vivos*. Let us assume first of all that these gifts were made within three years of death, and are, therefore, liable to estate duty as gifts *inter vivos*. The amount of the gifts will then have to be added on to the estate in order to find the scale on which estate duty is payable. That makes the net estate subject to estate duty £30,000, fixing the estate duty at 10 per cent. Where persons have had gifts, then the duty on those gifts must be borne by the donees, therefore 10 per cent. will be paid by the estate, i.e., £2,000. A will pay £300 and C will pay £100. The net estate now available for division is £23,400.

I am going to assume that there are no expenses on realisation, and that the estate realises exactly the net amount which is left. That being so, the amount available for division is £23,400, and that would be divided equally amongst the children, but for the fact that A has already had something on account, and so has C. We therefore make A bring into account not his gross advance, but the actual amount of benefit which he has received from the estate, namely, the gross advance less the estate duty. He, therefore, brings in £2,700, and likewise C brings in £900. That is in accordance with the decision in *re Crocker; Crocker v. Crocker* ((1916) 1 Ch., 25). We therefore add on the advances of £3,600, making the estate for the purposes of division £27,000. We divide that equally amongst the children, giving them £9,000 each, and then we make A account for the £2,700 that he has already had, and he therefore gets £6,300 out of this £23,400, which is now available for division. Likewise B gets his full share of £9,000, but C gets only £8,100. That is the position where advances are subject to estate duty.

Then the donees bring in simply the net amount after they have borne the estate duty thereon.

Now take the other side of the transaction. Let us assume that these advances were made more than three years prior to death, so that they would not be liable to estate duty. In that case, in accordance with the decision in *re Tollemache*; *Forbes v. Public Trustee* ((1930) W.N., 138), a case decided last year, we must bring into account the advances with the estate before deducting the estate duty, i.e., whatever the net amount is, we must add back the amount of the estate duty. In that case it would give us £26,000. A has already had £3,000, and C has had £1,000. We must therefore bring into account the £4,000 with the £26,000 before taking the estate duty. That gives us £30,000 to divide amongst the children; they therefore get £10,000 each. Deducting the advances, we get £7,000 for A, £10,000 for B, and £9,000 for C. The estate duty payable out of the estate has then to be divided among those children in the ratio of their new shares, i.e., in the ratio of those three figures. The estate duty is £2,600, because the estate is now £26,000. We do not have to aggregate the advances, because they are exempt from estate duty, having been made more than three years before death. We therefore divide that £2,600 between them in the ratio of seven, ten, and nine, and that gives us £700, £1,000, and £900, making up the £2,600. The net result is that A gets £6,300 out of the estate available when his father dies, B gets £9,000, and C gets £8,100.

You will thus see that it is entirely equitable that they should account in this way, because they get exactly the same share in the estate whether or not the advancements are subject to estate duty, which proves, of course, the equity of the deal. If you worked it out in any other way you would be making one child bear estate duty which is properly payable by his brothers.

This hotchpot rule operates only for the benefit of children, and it only operates on the death of the father or mother. Prior to 1926 it only operated on the death of the father but now it operates on the death of either parent. It does not, however, operate for the benefit of any other relatives or of the widow.

Now as regards the children of children, i.e., the grandchildren of the deceased. Grandchildren of the deceased are required to bring into hotchpot advances made to their fathers, but the grandchildren need not bring into account advances made to themselves, which is rather an important feature. You will see the rule for that when you remember that the line for dividing is the children, and any grandchildren only get their parent's share. Naturally a son of an intestate would not have to bring into account the advances made to his own children.

DIVISION OF INCOME

Now let us deal with the income. There must, of course, be some period between the date of death and the date of the actual division of the estate. That being so, income must have been earned by the estate during that period. How is that income to be divided amongst the children? You will remember that as a general rule the legal personal representative is allowed one year in which to realise and distribute the estate. If he realises and distributes the estate within that year—which is commonly called "the executor's year"—if he realises it within that year, then the advances are required to bring into account interest at 4 per cent. per annum upon their advances (*re Davy* (1908) 1 Ch., 61; *re Rees* (1881) 17 Ch.D., 701), i.e., income will be credited with 4 per cent. per annum upon the advances, and the advances will be debited with that interest. But if there is a longer period between the date of death and the date of distribution, then the

Courts almost invariably apply what is known as the rule in *re Hargreaves* (88 L.T., 100), and by that rule the net income received since death must be apportioned between the beneficiaries in proportion to their net shares in the estate.

Some years ago a further case was decided—the case of *re Poyser* ((1908) 1 Ch., 828), and in that case the Judge held that the gross income should be shared in the ratio of their net shares in capital, but that the expenses and outgoings should be shared equally. That, of course, was the most equitable of the decisions, because it automatically made the beneficiaries bring into account interest at the same rate as that earned by the estate, thereby preserving equality amongst the children. But the Courts in later cases have failed to apply that decision in *re Poyser*. In the latest case decided about eighteen months ago—*In re Mansell*; *Smith v. Mansell* ((1929) W.N., 292)—the decision in *re Hargreaves* was followed. You know, the Judges are not fond of complicating accounting rules, and that seemed to them to be a little too complicated. The Judge had quite plenty to think about in the figures, without making them any more involved than was necessary.

So far I have only dealt with hotchpot as affecting intestacy. Where a man has left a will, then hotchpot will only apply if there is a hotchpot clause in the will; if there are children it is quite common to find such a clause so as to preserve equities among the children.

ESTATE DUTY PAYABLE BY CERTAIN COMPANIES UNDER FINANCE ACT, 1930.

I think that is all I need say at the moment about hotchpot. Therefore I propose to pass on to something which is exercising the mind of every student to-day, and that is the new provisions in the Finance Act, 1930, regarding certain companies. A practice has arisen in recent years, particularly since the War, of transferring property to limited companies with the idea of avoiding estate duty. Please note that I use the word "avoid," and not "evade." The Judges have held that that is an entirely different thing; we are all entitled so to arrange our affairs as to avoid attracting estate duty, but may the gods help us if we once attract it and then try to evade it!

Now let us see how this new scheme works. Suppose I had a landed estate of £100,000, and I also had investments of £200,000. If I died to-day those would both be incorporated in my estate, aggregated with my estate, and would send up the rate of estate duty, and both would be liable to estate duty. I may therefore desire to avoid attracting estate duty on those properties by the expedient of transferring them to a limited company. If I transfer them to a limited company in exchange for a complete consideration which I retain myself I shall save nothing, because I shall have the consideration in my estate instead of these properties. What I should, therefore, do would be to arrange for the company to allot to my wife and children the majority of the shares forming the consideration, so that when I died there would be no property passing as part of my estate. Of course, if I died within three years of this transaction being carried out my children would have to pay estate duty on what would then be gifts *inter vivos* within three years, but if I survive the three years the Inland Revenue get nothing in respect of the shares I have given to my children.

Naturally this did not appeal to the Chancellor of the Exchequer. There was far too much death duty being "avoided" in this particular manner. He has, therefore, introduced the thin end of the wedge in the Finance Act, 1930, by making certain companies liable to estate duty on certain property. It is a very difficult thing to explain

this in logical sequence, and therefore I am asking you to bear with me to a certain extent. In certain cases I shall put down figures and I shall not tell you how those figures are arrived at. You will have to take them for granted as being correct, and then I shall go on to explain how those figures are arrived at.

Let us see, first of all, which companies are "certain companies." They are companies which are not controlled by the shareholders or any class of them, and in which the public do not hold—or, if the issue is about to be made, will not hold after the issue has been made—shares carrying a majority of the voting power. Then in any of these cases, if property consisting of lands, investments, money or securities for money has been transferred by the deceased to the company, and the deceased has retained benefits extending to more than 50 per cent. of the annual income of the company, a proportion of the assets of the company will be presumed to pass on the deceased's death.

I now propose to get down to figures straight away, because it is very difficult indeed to appreciate this unless we have definite figures. I have transferred land, we will say, in this case worth £80,000, and investments worth £120,000, to a limited company for shares. There are 200,000 shares of £1 each allotted as the consideration for this transfer. Five thousand of those shares I retain myself as the vendor, the other 195,000 I have allotted to my wife and children. I also enter into a service agreement with the company whereby the company will pay to me an adequate salary each year, sufficient for me to live upon. The adequacy, of course, will depend upon my station in life. Having regard to the property I have transferred to this company, the adequacy, of course, will be rather a big one in the term of figures.

Let us assume that during the last three years prior to my death the income which I derived—the vendor's income—was in the first year £4,000, in the second year £16,000, and in the third year £5,000. In those three years the company's income amounted to £6,000, £12,000, and £10,000 respectively. Now it may look rather curious that I have had more benefit than the company actually had, but I shall explain that presently; I ask you to accept it for the moment as a fact.

Now if during the three years prior to my death I was in receipt of an income of more than 50 per cent. of the company's income, then that fixes the proportion of the company's assets which are presumed to pass on my death. This will offend every Incorporated Accountant and every Incorporated Accountant Student, because you all have to study statistics, and the Act requires us to do something which is anathema to a statistician; that is to say, we have to take an average of averages.

Here we have 66½ per cent. for the first year, 133½ per cent. for the second year, and 50 per cent. for the third year. The average of those three proportions is $\frac{240}{3}$, which gives us an average of 83½ per cent. Now, obviously, if you took the actual average income for the three years you would get an entirely different percentage, but the Act requires us to take an average of averages. We have, therefore, decided that I, as the vendor, have had an income of 83½ per cent. on the average of those three years, and since that is over 50 per cent. it means that that proportion of the company's net assets will be presumed to pass on my death. If the company's net assets by this time are valued at £200,000, the same figure as they were before, then 83½ per cent. of £200,000 will be the amount in the company's hands liable to estate duty on my death.

The company has to pay the estate duty on that figure, you will notice, and not my estate. Now, if I had died

still holding this property, the value of the property passing on my death would have been aggregated with my estate. But it is specifically provided in sect. 34 (7) of the Finance Act, 1930, that this property is not to be aggregated with any other property, and, therefore, it will form an estate by itself. Consequently, there is a great saving of duty in the lower rate which will then be payable.

Having given you the general gist of the scheme, let us see how the different figures are arrived at. First of all, the vendor's income. The vendor's income is described in the Act as benefits derived by him—and by "benefits" we mean (a) any payments by the company to the vendor other than instalments of purchase money under a *bona fide* sale, where that purchase money is a fixed capital sum, (b) instalments of interest on loans or debentures, (c) dividends on shares, and (d) royalties not limited to cease on the death of the deceased. The idea behind that is clear, because the vendor will have to include in his estate the assets on which the interest and dividends are payable, and, therefore, the interest on loans and dividends on shares are to be excluded in arriving at his income; because, obviously, if he is receiving dividends, then he has to pay estate duty upon the shares in respect of which those dividends are paid.

He is allowed to deduct from that income the income tax, but not the surtax, which he has to pay or bear thereon. I would like you to notice here that he is required to treat as benefits all the moneys received from the company in each year, with the exceptions I have already mentioned. Therefore, if the company makes him a loan, as is not uncommon in this type of company, he will have to bring that loan in as a benefit received from the company. Moreover, it is the sums received in the year that we have to bring into account, irrespective of their period of accrual. Therefore, if we are dealing with accounts for the year 1929 and on January 1st, 1930, the company paid to this gentleman director's fees, those director's fees, although in respect of the year 1929, will form part of his 1930 benefits for this particular purpose. There may be a year in which he receives nothing in actual cash from the company, therefore the percentage will be nil per cent.

Having arrived at this side of the computation, we now look to see if there are any other benefits received by the deceased in respect of land, i.e., if he had the right to occupy the mansion house free, or on a nominal rental; then the net annual value of the mansion house will be the income for this purpose, or if he pays a nominal rental, then it will be the net annual value less the amount of the nominal rental.

Now for the company's income. The company's income is the profit or loss of that company as adjusted for income tax purposes. But here we do not deal with the profit and loss account of the previous year, as for income tax assessment, but with the actual profit and loss account for the year under review. From the adjusted profit so found, we are allowed to deduct any payments in respect of loans or debentures from which the company is entitled to deduct income tax. We are also entitled to deduct the dividends on preference shares carrying a fixed rate of dividend, and also the income tax borne by the company in respect of the income so brought into account. We must include in the income, however, the net annual value of the properties owned by the company, irrespective of the rentals received, and also the gross dividends received from investments. So that in effect, we take into account roughly the statutory income of the company, less the annual charges of the company. That gives us the denominator.

The next thing we are interested in is the way to arrive at the value of the assets. The net assets here mean the

net assets of the company valued on a going concern basis, which means that you must take the going concern values of all the assets, including the goodwill, and deduct therefrom all debts of the company, all funds belonging to employees, and also debentures, loans, and the nominal or redemption value of any preference shares. If the redemption value of the debentures is more than their nominal value, there again you are entitled to deduct the redemption value instead of the nominal value. You are also entitled to deduct any sum on which estate duty is payable under sect. 35 of the Finance Act, 1930. I am going to deal with that in a moment. I have not the time to run over the whole of the sub-sections of this particular section of the Finance Act, besides I feel it would be unfair to give any of you such a strain on your minds at this time of the evening; what I am trying to do is to get the general principle clear, so that when you read the Act you will be able to do so with a little more understanding than if you read it for the first time without any idea of what it is all about.

LIFE INTERESTS.

I therefore pass to sect. 35. This section deals with another matter of avoidance. When A dies, leaving property to B for life, with remainder to C, naturally that property passes on B's death, and, therefore, estate duty is payable on B's death. B and C then put their heads together and say, "Is there not a way whereby we can avoid the estate duty?" C says, "Yes, there in one way; surrender to me your interest, and that will save trouble." It certainly might save trouble, but it does not appeal to B unless he gets some substituted benefit, and if B takes any substituted benefit the property will still be liable to estate duty, and that will not please C. They therefore formulate a scheme whereby the two of them transfer their respective interests in the property to a limited company, B taking as the consideration for his interest either directors' fees or an annuity.

Directors' fees being in respect of services rendered, do not form the subject matter of property passing at death. Moreover, if B sells his interest to a limited company for an annuity, since that annuity has been acquired for full consideration, the property will not be liable on B's death. Therefore they have very neatly avoided estate duty on B's death.

The Finance Act says wherever property has in this manner been transferred to a limited company otherwise than for full consideration taken by both parties—if B takes full consideration, there is no difficulty from the Inland Revenue point of view, because the consideration will form part of his estate—but if he has done it otherwise, if he has taken it for an annuity or director's fees, then the property will still be presumed to pass on his death, and the company will have to pay the estate duty. So that they have neatly caught the company on this property. It is provided that estate duty shall be payable by the company as an estate by itself on the value of the property on the date of the deceased's death, i.e., B's death. If the property has been sold by the company then we must find what stands in the assets in its place, and that will have to bear estate duty on B's death. Any loans which are outstanding in respect of money borrowed for improving the assets are allowed for deduction, but any debts incurred for improvements are not allowed for deduction.

You will notice that here again we have an estate by itself. It is not aggregated with the rest of the deceased's property, nor is it aggregated with any of the property which the company may have to pay duty upon under sect. 34. A company could not be landed with two lots of estate duty on the same assets, because it is specifically

provided that any property which is subject to estate duty under sect. 35 has got to be deducted in arriving at the net assets for the purpose of sect. 34.

VALUATION OF SHARES.

Now we have one further asset to consider. I am going back to the personal. I was the vendor here, and you will remember that when I transferred my property to the limited company I retained £5,000 in shares. How are those shares to be valued? Well, the Act specifically lays down the rule that in arriving at the value of the shares you must value them by reference to the net assets of the company, and you are allowed to deduct from the net assets any sum on which estate duty has already been paid by the company. Assuming there was only one scheme in operation here, the amount on which estate duty has already been paid by the company is £166,666 13s. 4d. Therefore, the amount which will form the value of the shares in the company will be £33,333 6s. 8d. You will remember there were 200,000 shares, and, therefore, the 200,000 shares will be worth £33,333 6s. 8d., which means that each share is worth about 3s. 4d. I therefore value my 5,000 shares on the basis of 3s. 4d. each. That avoids any double charge of duty. The remaining shares are already held by my dependants, and they have avoided estate duty altogether on the amounts advanced to them.

I can foresee great difficulties in practice in these provisions. Naturally I have had to deal here entirely with theory. These provisions only apply to transfers to companies after July 31st, 1918, where the person who transferred the property dies after July 31st, 1930. But I can foresee difficulties, because first of all we must value the assets on a going concern basis, and secondly we must include in those assets the value of goodwill, and unfortunately they do not lay down any formula for valuing goodwill. Moreover, they do not state in the Act what constitutes an invitation to the public, or what constitutes the public. And there are other things which may have to be fought out in the Courts.

Now the Act goes still further. It says that any company which comes within the definition, i.e., that it is not controlled by the shareholders or any class of them, and the public do not hold shares carrying more than 50 per cent. of the voting power, will, if that company was controlled by the deceased, either by his shares carrying control or by his having rights in the Memorandum and Articles to control the board or to appoint directors or to exercise the powers of the board, or veto the appointment of a director, or control it in any other way—then any shares in the company which pass on his death are to be valued on an assets basis. In the past we should probably have valued those shares for probate purposes on a revenue-earning basis. That is going to give us many squabbles with the Inland Revenue, and they will probably be worse than any we have had in the past. I can foresee great difficulties, particularly in connection with goodwill.

I think I have now given you quite a sufficient meal in that respect for one evening. I know what it is to sit listening to a lecture. I have been through it all, and if you get too much of one thing, you are liable to get severe mental indigestion. I will therefore go on to something entirely different, and that is the question of arriving at the amount of legacy duty payable in respect of settled legacies.

LEGACY DUTY ON SETTLED LEGACIES.

Settled legacies, you will remember, arise where A dies, leaving some property to B for life, with remainder over to C. In that case, how is the legacy duty to be calculated? First of all, the legacy duty is always paid upon

the value of the legacy on the date of the executor's assent. Secondly, specific legacies carry their own interest from the date of death; that means that the interest received since death and apportionable to income forms part of the legacy, so that the longer the delay on the part of the executor in paying over that legacy, the more legacy duty you are likely to have to pay, because you have to pay legacy duty on the income as well as on the capital. The best analogy we can give, of course, is in connection with livestock. Someone has left you a Derby winner, and by the time the legacy is handed over to you, you have a Derby winner and a potential Derby winner. In that case you have to pay duty on both—on the mother and on the foal—because the specific legacy takes its own interest, which in this case is the progeny.

In a settled legacy, the procedure is much the same. You must pay duty on the date of the executor's assent, provided that legacy duty is payable on the capital. If B and C are both liable to legacy duty at the same rate, then legacy duty is paid at once upon the capital value of the legacy at the date of the executor's assent. But if B and C are liable to legacy duty at different rates—for example, if B is a "5 per cent.-er" and C a "10 per cent.-er," then you must ascertain what is the annual income produced by the property. You will then find out what is B's age; you turn up the tables in the Succession Duty Act of 1853 and find out the present value of an annuity of that amount to a person of B's age, and B has to pay legacy duty upon that capital value. When B dies, the property is valued again, after paying estate duty on B's death. That is the case with settled legacies.

SPECIFIC LEGACIES.

Where we are dealing with purely specific legacies, there is no question of a settlement. A has left some property specifically to B. Let us assume that A has left to B £10,000 worth of 5 per cent. War Loan. At the date of A's death (we will take that to be March 1st, 1980), the War Loan had to be valued and brought into A's estate duty account. We are not interested in that value for legacy duty purposes; what we must find out is the value of that property on the date of the executor's assent. Let us assume that the executor takes over a year in which to realise the estate and be in a position to pay the legacies, and that it takes him until July 1st, 1981, before he is actually able to assent to that legacy. Let us assume, too, that by that time the 5 per cent. War Loan is valued at 103. B would have to bear legacy duty on £10,300 in respect of the actual value of the War Loan, but he would also on that date be entitled to the interest received since the death. Now on June 1st, 1980, a half-year's dividend was received on this War Loan, £250. Three months' interest had accrued prior to the deceased's death, and, therefore, it belonged to the deceased's estate. Consequently, only the three months' interest accrued since the death, £125, would go with the legacy. Then on December 1st, 1980, a further half-year's dividend was received of £250. That belongs to the legatee. Then on June 1st, 1981, a further half-year's dividend was received, and, therefore, this legatee is going to have to pay legacy duty on £10,925, which includes, of course, the income since the date of death. Now you will notice a great inequity here, because, in accordance with the decision in the case of *Commissioners of Inland Revenue v. Hawley* ((1928) 1 K.B., 578), the income since the death forms part of the total income of the legatee for income tax purposes, and, therefore, he has to bear income tax upon it, and surtax if he is liable, so that he is having to bear legacy duty, income tax, and possibly surtax, in respect of the same income. That, of course, is inequitable, but then equity and taxation are strangers, although we

find a great deal more equity in death duty practice than in connection with income tax.

MARGINAL RELIEF IN LEGACY DUTY.

If I may branch off again, I want now to give you something which will probably amuse as well as instruct you. Let us assume that a man dies leaving an estate for estate duty purposes which is valued at £1,008. The estate duty upon that, since the estate falls between £1,000 and £5,000, should be at 3 per cent.—that is something over £30. But the Act provides that in cases such as this, a marginal relief is applicable for estate duty purposes, so that you can treat your estate as if it was £1,000 and pay 2 per cent. on it, by handing over to the Inland Revenue, as additional duty, the amount of the estate which you do not want, which is £8. The Inland Revenue say "We do not mind. Give it to us," and you give it to them as additional duty. We have, therefore, got £980 available for legacies. Now let us assume in this case that owing to a little bit of good marketing on the part of the executors, we manage to realise this estate for £1,020. The executorship expenses amount, we will say, to £30, so that we have got £990 actually available for division amongst the beneficiaries. The will provides that this estate is to be divided equally in three parts, one to his widow, one to his niece, and one to his uncle—by that I mean his blood relation. (Laughter.) I have a reason for that, because I was lecturing to students some time ago and talking to them about legacies passing subject to the charges thereon, and some comedian in the audience got up and asked what happens if a man leaves you a specific legacy of a gold watch, and when he dies that is with "uncle." Of course, the answer to that is easy—the executor simply hands over the pawn ticket. (Laughter.)

In this case I mean the blood relation. The widow, therefore, is going to get £330, the niece is going to get £330, and the uncle £330. What amount of legacy duty is payable? Well, as the estate did not exceed £15,000, the widow will pay no legacy duty, so she will get £330, but the other two will have to pay. The uncle is not a lineal ancestor or descendant, therefore, he must be a "10 per cent.-er." On the face of it, the uncle should pay £33, and the niece being a "5 per cent.-er," would pay £16 10s.

There is another marginal relief operating here, however. You will remember that where an estate does not exceed £1,000, no legacy duty is payable at all. The margin you get here is that where an estate is just over £1,000, the legacy duty must not exceed the amount by which the estate exceeds £1,000. Therefore, the maximum legacy duty in this case must be £8, and naturally that is shared between the people in the ratio of their liabilities. The niece will pay one-third of £8, and the uncle will pay two-thirds of it.

RAPID SUCCESSION RELIEF.

Now, just by way of one last example, let me deal with the question of rapid succession relief. Rapid succession relief is a relief introduced for estate duty purposes for the purpose of alleviating the burden on landed estates and businesses which is bound to arise where a number of deaths occur in quick succession. It is provided that where property consisting of land or of a business not carried on by a limited company becomes liable to estate duty a second time within five years in the hands of the person to whom it passed on the first death, then relief shall be given from estate duty payable on the second death on a graduated scale. If death occurs within one year, then it is 50 per cent., if within two years it is 40 per cent., if within three years it is 30 per cent., if within four years it is 20 per cent., and if within five years it is 10 per cent. It is provided, however, that if the value at the first death

is less than that at the second, then the relief shall be paid by reference to that lower value. A dies, leaving property to B. A dies on January 15th, 1928, and B dies on February 2nd, 1929. Part of A's estate consisted of a house valued at £4,000, which he left to B. When B died that house was valued at £4,700. Now let us assume that B's total estate, including all his property, came to £26,000. Ten per cent. is the appropriate rate of estate duty. His estate is liable to pay 10 per cent. on this land—that is, £470. But seeing that his land has already borne duty on the death of the person from whom he took it, he is entitled to rapid succession relief. In this case it is not within one year; it is within two years. Therefore the rate of relief is 40 per cent. So that we get rapid succession relief 40 per cent. on the duty payable in respect of this property in so far as there has been double taxation. The whole idea of rapid succession relief is to give you relief from double taxation, and by no stretch of imagination can you say that £4,700 has been doubly taxed, because you only paid tax on £4,000 on the first death. You get 40 per cent. on £400; that is, you get £160 relief.

Discussion.

The CHAIRMAN (Mr. G. Roby Pridie): As you are aware, Mr. Colesworthy was to have taken the chair this evening, but unfortunately he is unable to be present, and I came here without the slightest intention of either occupying the chair or of making a speech. The Lecture Mr. Wilson has given us to-night has been so entrancing that I am sure you will desire to discuss it very freely, and there is no doubt that the impression created in our minds will be a lasting one and exceedingly useful to us in the future. The meeting is now open to discussion, and I trust the Students will make full use of their opportunity for asking any questions of the Lecturer.

Mr. W. E. AIRS (Incorporated Accountant): I would like to ask Mr. Wilson whether, in the case of intestacy, where the administrator is winding up a business for the purposes of realisation, the profits are income or capital; and how would he deal with losses?

Mr. WILSON: In the division of the estate, so long as the administrator is engaged in winding up, strictly speaking everything is capital, and until the residue has been ascertained there is no income at all. Therefore, in an intestacy I think you would be quite safe in saying that there would be no question of income until the residue has been ascertained, although in practice, where there is a widow, it is customary to give the widow the income from the date of death. In that case, since the business is a non-trustee asset, it is probable that part of the income will have to be kept in reserve in case of any losses which may occur in the future, but from that viewpoint I think we can safely say that it is income, provided we have made adequate reserve for any possible losses. The administrator would be very foolish to pay any of it over, I think, until he had realised the estate.

Mr. AIRS: Does not sect. 33 of the Administration of Estates Act give him power?

Mr. WILSON: It does give power, but it is not a question of power. It is what you can safely do. That is rather a question for the Court than for a poor accountant. I think the executor, or the administrator, in a case like that would usually take advice.

Mr. A. G. IRONS: I would like to make certain, with regard to the question of valuing shares, as to whether the problem of valuing the shares on the basis of capital and not on the basis of revenue applies to all shares, or whether it applies only to the shares of companies that the Lecturer has been dealing with to-night?

Mr. WILSON: It applies only to those companies which come within the definition, i.e., those companies which are under sect. 34 or sect. 35, or which come under the definition in some other way—shares giving the controlling power, which are not held by the shareholders

or any class of them or by the public—shares which gave the deceased a controlling interest. In that case you have to take the assets basis.

Mr. IRONS: Would it apply to shares belonging to someone who was the principal shareholder in a small private company?

Mr. WILSON: Yes, they might certainly get caught. You would get roughly the same result, whichever method of valuation you adopted, if you valued the goodwill properly. It is largely a question of the value of the goodwill.

Mr. IRONS: Then it is quite possible that some of the other assets may not have any value?

Mr. WILSON: Quite; it is a question of valuing them on a going concern basis.

Mr. J. C. RUSSELL: I would like to ask whether the Lecturer thinks that rapid succession relief could be obtained in cases where an estate consisting of land or interest in a business is transferred to a limited company between two deaths (the second being within five years of the first) seeing that the shares of the company would now be valued on an assets basis, and that those assets would include the land, &c., which had borne duty on the first death.

Mr. WILSON: I am afraid not. The section says that it must be in the hands of the person to whom it passed on the first death, and the company would not be that person.

A STUDENT: Can Mr. Wilson tell me if any difficulty arises where a person who is dying gives a cheque to another person as a gift?

Mr. WILSON: I am afraid it is not a valid donation. There was a case a few years ago which was rather interesting in that respect. A man had given his wife a cheque about 11 o'clock in the morning, and phoned to the bank manager to come round and take the cheque and pay it into his wife's account. The drawer of the cheque died within an hour and a half, but since the bank manager had received the cheque in exercise of his authority, the transaction was held to have been completed during the lifetime of the donor and the wife got her money. But the deceased at the same time gave the manager a cheque, drawn in his wife's favour upon another bank, which inadvertently he had post-dated, and it was held that that was not a valid donation.

The STUDENT: Must the cheque be paid before death?

Mr. WILSON: Yes, because the death automatically revokes the banker's power to pay. A bill of exchange is all right, or a cheque drawn by some third party and endorsed over by the deceased, because there is no revocation of authority to pay.

Mr. A. SIMMONDS: Mention was made in the lecture of transferring of property to a limited company in order to avoid the estate duty. What exactly happens to the dividends received on shares taken as consideration?

Mr. WILSON: The dividends received on shares by the deceased are excluded in arriving at his benefits, but the dividends paid by the company otherwise than on preference shares are not excluded from the company's income. Director's fees would, of course, be considered benefits. Any fees count as benefits and go into the numerator.

Mr. SIMMONDS: The shares that are issued in consideration of the property received by the limited company, would they be issued immediately to the beneficiaries, or would they be held until the death of the person transferring them; and what would happen to the dividends on those shares?

Mr. WILSON: If he held the shares until his death there would be no question of this operating, because he took the full consideration. It is only where he has parted with the consideration to his beneficiaries that we have to bring it into the provisions at all.

On the motion of Mr. GEORGE, Mr. Wilson was heartily thanked for his lecture, and the usual vote of thanks was accorded to the Chairman.

District Societies of Incorporated Accountants.

BELFAST.

The annual general meeting of the Belfast and District Society of Incorporated Accountants was held on April 27th. In presenting the report for the year, which was published in our last issue, the Chairman, Mr. James Baird, stated that the membership was now 169, made up of 19 Fellows, 55 Associates, and 95 Student members. Of the 41 candidates who entered for the Society's examination held in Belfast, 22 succeeded in passing.

The following office-bearers were elected for the ensuing year:—President, Mr. J. D. Thompson; Vice-President, Mr. D. T. Boyd; Hon. Secretary and Treasurer, Mr. Herbert McMillan; Hon. Auditor, Mr. Charles Magee; Committee: Mr. F. Allen, Mr. J. H. Allen, Mr. E. A. Anderson, Mr. H. Andison, Mr. J. Baird, Mr. R. Bell, Mr. J. Boyd, Mr. N. Booth, Mr. S. Boyle, Mr. A. S. Courtney, Mr. J. S. Lewis, Mr. J. S. White, Mr. J. Howard Wilson.

SOUTH WALES AND MONMOUTHSHIRE.

(CARDIFF AND DISTRICT STUDENTS' SECTION.)

ANNUAL MEETING.

The annual general meeting of the Students' Section was held at Cardiff on May 21st. The chair was occupied by Mr. E. Ewart Pearce, A.S.A.A., and there was a good attendance of members.

Much gratification was expressed at the very successful session just ended, as indicated by the report of the Hon. Secretary.

The following officers were elected for the session 1931-32:—Chairman and Students' Representative on the District Committee, Mr. K. V. Stephens; Vice-Chairman, Mr. E. V. C. Nicholls; Hon. Secretary, Mr. J. Alun Evans; Committee, Mr. E. Ewart Pearce, A.S.A.A., Mr. L. J. Muller, A.S.A.A., Mr. O. J. Thomas, A.S.A.A., Mr. K. S. Williams, Mr. Noel Cliffe, Mr. V. F. Alban, and Mr. J. T. Jones.

It was decided to continue the prize essay scheme during the session 1931-32, and the following were appointed judges:—Mr. E. Ewart Pearce, A.S.A.A., Mr. Ivor Davies, A.S.A.A., Mr. L. J. Muller, A.S.A.A., Mr. O. J. Thomas, A.S.A.A., Mr. K. V. Stephens, and Mr. J. Alun Evans (Hon. Secretary).

Report.

The syllabus of lectures delivered during the session was as follows:—

"The Practical Application of the Law of Contracts," by Mr. W. Elfyn David.

Debate with the Newport Students' Section (at Newport): "That the Present System of Taxation is Equitable."

Lectures by members: "The Organisation of Labour," by Mr. K. V. Stephens; "Accountancy Training," by Mr. Ivor Davies, A.S.A.A.; "Apportionment and the Executors," by Mr. Oliver J. Thomas, A.S.A.A.

"Shipping Accounts," by Mr. W. J. Pallot, F.S.A.A.

"Drapery Accounts," by Mr. D. Bernard Morgan.

A Mock Creditors' Meeting.

The session was a most successful one.

PRIZE ESSAY COMPETITION.

The prize essay scheme has once again been carried through satisfactorily. The list of those who took part, and of the papers delivered, is as follows:—

"An Outline of Economic Theory," by Mr. T. W. M. Bowen.

"The Principles of Branch and Multiple Shop Accounts," by Mr. C. J. Crang.

"Reserves and Sinking Funds," by Mr. V. F. Alban.

"The Duties of an Executor," by Mr. L. G. Diamond.

"Income Tax: The Assessment of New and Discontinued Businesses and Successions," by Mr. E. V. C. Nicholls.

"Sur-tax in Relation to Limited Companies," by Mr. H. C. Hopkin.

"Cheques and Bills of Exchange," by Mr. F. J. N. Hellyer.

"Costing for a Small Concern," by Mr. N. Cliffe.

"Internal Check," by Mr. J. T. Jones.

"Company Amalgamations and Absorptions," by Mr. M. Estrin.

Mr. E. Ewart Pearce, A.S.A.A., Mr. K. V. Stephens, Mr. Ivor Davies, A.S.A.A., Mr. W. I. Rodda, A.S.A.A., Mr. L. J. Muller, A.S.A.A., and the Hon. Secretary, who acted as judges, awarded the prizes to the following competitors:—(a) *For the best paper*: 1st, Mr. Noel Cliffe. Paper on "Costing for a Small Concern." 2nd, Mr. H. C. Hopkin. Paper on "Sur Tax in Relation to Limited Companies." (b) *Prize for the best contribution to the discussions*: Mr. E. V. C. Nicholls.

As in previous years, the District Society were good enough to defray the cost of the prizes, which were presented to the successful competitors by the President of the Parent Society at the annual dinner of the District Society held on April 17th, 1931.

EXAMINATIONS.

Two Cardiff members, Mr. Noel Cliffe and Mr. John Ewart, obtained honours certificates in the November Intermediate examination. Mr. Noel Cliffe, who secured the Second Place Certificate and Second Prize, was also awarded the first place in the prize essay scheme. Ten members passed the Final examination during the year, and nine were successful in the Intermediate.

SOCIAL AND EDUCATIONAL FUNCTIONS.

The fifth annual dinner was held at Cardiff on December 1st, 1930, and was ably presided over by our Chairman, Mr. E. Ewart Pearce, A.S.A.A. The attendance numbered 85 and was the highest on record.

We are indebted to Mr. R. Wilson Bartlett, F.S.A.A., Newport, for arranging a visit to Messrs. Cadbury's works at Bournville, Birmingham, on June 4th, 1930, and to Mr. W. Wallace Massey and his officials for the many kindnesses extended to us during our short stay there.

The annual match with the Chartered Accountant Students' Society was played on the Penarth Rugby ground on December 18th, 1930, when our team ran out winners by three tries (nine points) to nil. Unfortunately, the state of the ground prevented scientific football, but each side did remarkably well under the circumstances. This event continues to prove most enjoyable, and our thanks are due to Mr. L. G. Diamond for making the necessary arrangements.

The Society of Incorporated Accountants and Auditors.

46th ANNUAL GENERAL MEETING.

THE 46th Annual General Meeting of the Society was held at Incorporated Accountants' Hall, Victoria Embankment, London, on Tuesday, May 19th. Mr. HENRY MORGAN (President of the Society) occupied the Chair, and was supported by Mr. E. Cassleton Elliott (Vice-President) and the following members :

Mr. R. Wilson Bartlett, J.P., Mr. R. M. Branson, Mr. H. J. Burgess, Mr. D. E. Campbell, Mr. W. Allison Davies, Mr. Frederick Holliday, Mr. Walter Holman, Mr. E. T. Kerr, Sir James Martin, J.P., Mr. James Paterson, Mr. W. H. Payne, Mr. William Paynter, Mr. A. E. Piggott, Mr. J. Stewart Seggie, Mr. Alan Standing, Mr. Percy Toothill, Mr. A. H. Walkey, Mr. Frederic Walmsley, J.P., Mr. E. W. C. Whittaker, J.P., Mr. R. A. Witty, Mr. F. Woolley, J.P., Mr. A. Stuart Allen, Mr. J. Baird, Mr. E. Baldry, Mr. Donald H. Bates, Mr. H. F. O. Bence, Mr. M. Benjamin, Mr. C. E. L. Bird, Mr. Reginald Bourne, Mr. A. E. Bradfield, Mr. F. S. Brittain, Mr. H. E. Coleworthy, Mr. Francis L. Cooke, Mr. A. S. Darr, Mr. Trevor Davies, Mr. H. E. Davis, Mr. Charles M. Dolby, Mr. Edward D. Edwards, Mr. A. R. King Farlow, Mr. L. H. Graves, Mr. J. H. Grove, Mr. Alexander Hannah, Mr. W. E. Holland, Mr. C. A. Holliday, Mr. J. Edwin Holmes, Mr. Arthur H. Hughes, Mr. John James, Mr. E. Furnival Jones, Mr. P. G. Jones, Mr. Harry C. King, Mr. H. Kingston, Mr. L. G. Mansfield, Mr. F. Maxfield Mather, Mr. F. W. E. Morgan, Mr. T. O. Morgan, Mr. A. E. Mullis, Mr. W. E. A. Norman, Mr. V. Owlett, Mr. W. J. Pallot, Mr. W. A. Pearman, Mr. L. H. F. Pinhorn, Mr. W. Price, Mr. H. Reynolds, Mr. G. F. Richardson, Mr. G. A. Ridgway, Mr. C. Neville Russell, Mr. C. A. Sales, Mr. R. M. Simpson, Mr. A. W. L. Sleeman, Mr. T. Holt Soul, Mr. Wm. Strachan, Mr. Joseph Turner, Mr. H. H. Vincent, Mr. Percy H. Walker, Mr. S. I. Wallis, Mr. W. H. Ward, Mr. M. Widdowson, Mr. J. R. W. Alexander, M.A., LL.B. (Standing Counsel), Mr. E. E. Edwards, B.A. (Parliamentary Secretary), and Mr. A. A. Garrett, M.A. (Secretary).

THE SECRETARY read the notice convening the meeting, also the Minutes of the 45th Annual General Meeting and Extraordinary General Meeting held in May, 1930, and the report of the Auditors.

THE PRESIDENT moved that the Report and Accounts for the year 1930, which had been printed and circulated amongst the members, be taken as read. This was agreed to, and the President then delivered his address.

President's Address.

I have pleasure in moving the adoption of the 46th Annual Report of the Council. Although the Annual Meeting is necessarily devoted to the formal business of the Society, I am happy to have again the opportunity of meeting personally members from all parts of the country in our own Hall and of reviewing the work of the Society during the past year.

My first duty is to recall the regretted death in December, 1930, of Sir Charles Wilson, who served as a member of the Council for thirty-seven years and held the office of President from 1901 to 1904.

His robust views and vigorous personality were combined with a sincerity and openness which won for him the friendship of supporters and opponents alike. We shall miss his familiar figure for many years to come.

During my Presidency I have been in daily contact with the work of the Society at Incorporated Accountants' Hall, and have had the opportunity of visiting most of the Branches and District Societies. I am impressed with the vitality of the Society in all its activities. The formation of a District Society for London and adjacent areas, which is a satisfactory achievement, completes the Branches and District Societies Scheme inaugurated by my predecessor some three years ago. The London District Society has our good wishes for a useful and prosperous career. The London Students' Society, established in 1890, continues with increasing usefulness its educational work among students and junior members. Through the sustained efforts of the Officers and Committees, the Branches and District Societies have provided an opportunity for every member to take an active interest in the work of the Society. Every Student has now to become a member of the Students' Section of a District Society or of a Students' Society, and they have co-operated loyally in complying with this requirement.

The examination statistics given in the Report are an index of the growth of the Society and of the character of the tests for admission. I would like to express my appreciation to the Examination and Membership Committee for their weekly scrutiny of Examination applications, and to those members of the Society who have been good enough to take charge of the conduct of the examination sittings. I also wish to express my satisfaction with the way in which the officers and members of the staff have carried out their duties during the past year. Personally I am very grateful to Mr. Garrett, Mr. Alexander and Mr. Edwards because I know they have spared no effort to render my Presidential duties as little onerous as possible. (Hear, hear.)

The general administration of the work of the Society overseas has called for the vigilance of the Committees of Incorporated Accountants in the British Dominions, with whom intercourse is maintained both by correspondence and by personal visits. Last year I had the pleasure of receiving at a function at Incorporated Accountants' Hall representatives of the Society from the British Dominions and also the President of the American Institute of Accountants. The Council have sanctioned the formation of an Incorporated Accountants' District Society for the Presidency of Bombay.

The accounts of the Society disclose a satisfactory financial position. The revenue has enabled the Council to discharge the increasing needs of the

Society and to provide a proper sum for the redemption of debentures and to meet some exceptional and, I hope, non-recurring heavy Parliamentary expenses. I am glad to note that the revenue from the hire of rooms at Incorporated Accountants' Hall has been substantially increased, this being an indication of the utility of the Hall to the members and others who have used it, as well as for the immediate purposes of the Society. In the result there is a surplus of £1,675 7s. 9d. for the year, which is approximately £500 greater than during 1929.

The Jubilee Banquet of the London Chamber of Commerce is being held at the Guildhall to-night, and the Council have caused a message to be sent conveying the congratulations of the Society of Incorporated Accountants and Auditors and their high regard for the work of the Chamber in promoting the interests of industry and commerce in the Metropolis. I would recall that Sir James Martin held the office of President of the London Chamber of Commerce from 1925 to 1928, and was Chairman of the Council of that body during the rigorous years of the War. I have the honour to be the representative of the Society on the Council of the Chamber, and I commend all members throughout the country to identify themselves actively with the Chambers in their respective centres.

DEPARTMENTAL COMMITTEE ON REGISTRATION.

Since I last addressed you in this Hall, the Departmental Committee on Registration has found, contrary to the evidence presented by the Society, that it is not desirable to restrict the practice of the profession of accountancy to persons whose names would be inscribed in a register established by law. That being the position, there rests upon the Council an intensified responsibility for maintaining the highest standards of examination, training, competence and professional conduct, such standards being distinguishing features of the profession and the source of the public confidence which we enjoy. The proper conduct of public practice is inspired, not by detailed rules, but by professional instincts and training, there being—apart from flagrant and happily infrequent instances of conduct derogatory to the Society—certain matters which can only be determined from the point of view of professional good taste. In this connection I might usefully observe that the description "Incorporated Accountant" is sufficient for all professional purposes, any elaboration being as redundant as it is unprofessional. (Applause.)

RATIONALISATION.

A feature during the last twelve months has been the progress in the application to certain leading industries of the principle of "rationalisation." Much has been said both for and against the adoption of this magnetic and elusive principle, but I think there can be no doubt that generally members of the accountancy profession regard it with misgiving, on the ground that it is unlikely to bring permanent advantage to our sorely depressed industries.

"Rationalisation" eliminates individuality, destroys initiative and stifles competition. Dissension and jealousy are frequently engendered amongst the staffs and officials of the various "rationalised" concerns, and labour difficulties are increased by the closing down of factories and works, and the consequent displacement of labour. The distrust of investors has been clearly evidenced by the result of a recent issue to the public in connection with one of the most important "rationalisation" schemes. Despite the imposing auspices under which it was issued and intensive publicity and propaganda, the underwriters were left with no less than 96 per cent. of the issue.

The amalgamation of large numbers of companies into huge combines has operated harshly as regards many members of the accountancy profession. The auditors of the constituent companies, who may have acted in that capacity for many years past and generally have contributed materially towards the creation or building up of the businesses, almost invariably receive a polite intimation that the board of the combine has decided that all the companies shall be audited by the same firm of accountants and requesting their resignation. The result is that much audit and accountancy work previously distributed amongst a number of practising accountants is swept into the net of a few large firms. The situation is one of serious importance not only to practising accountants generally, but especially to the large numbers of young men who are qualifying year by year. (Hear, hear.) During the last three years, despite an examination system which rejects every other candidate, the average number annually admitted to membership of the Institute and the Society has been over 850, but the increase in the practising members is relatively small. The predominant position of the Institute and the Society is largely due to the fact that so many of their members are engaged in public practice. It is evident that a major part of the members qualified in more recent years is not entering into practice, and this is rather startling when we consider the rapid increase in the scope and extent of the work of professional accountants. The opportunities for a young accountant to commence public practice are curtailed by the fact that so large a part of audit and accountancy work is concentrated in the hands of a few firms and therefore necessitates the greater proportion of our new members entering the employ of public bodies or industrial and commercial concerns or becoming clerks to large firms of accountants.

Whilst recognising the services that have been rendered by the founders and principals of some of such firms in raising the British accountancy profession to its pre-eminent position, our code of professional ethics should involve the discontinuance of any action that operates harshly or unfairly upon fellow members. This applies especially to rationalisation or amalgamation schemes whereby a number of companies are brought under one control. I can well understand the feelings of hardship and even some bitterness created in the mind of an accountant

who has carried out his duties faithfully and efficiently over a long period of years when he loses what to him may be an audit of material consequence to a firm whose practice is of a magnitude beyond the comprehension of the average practitioner, and to whom the addition of a few audits must be relatively a matter of small importance. Cases such as these have been numerous within the last few years, and it is perhaps not surprising that one is frequently asked the question as to whether they are consistent with the etiquette that should be observed between members of a great profession, especially as it must be frequently within the power of leading accountancy firms to set their faces against the displacement of auditors or accountants under circumstances such as I have indicated. (Applause.)

DEPRESSED INDUSTRY.

At our Sheffield Conference in September last I referred to the grave position of trade and industry as evidenced by the Revenue and foreign trade returns, the railway traffic figures, and the rapidly increasing unemployment. Eight months later we must confess the conditions are materially worse.

The intense world-depression and collapse in the prices of commodities have continued. Prices are well under cost and production is in excess of consumption. Many foreign Exchanges are unstable and fluctuating wildly, and there is industrial unrest and in some countries serious civil disorder. There must, of course, be a recovery, and the superstitious regard it as imminent by reason of the similar conditions which obtained when the Bank Rate was last 2½ per cent. What is exercising the minds of so many people, however, is if, when that recovery comes, this country will be in a position to make full use of the opportunity which will present itself. More than any other, this country is dependent upon its industries. As Incorporated Accountants we know that many of our industries which are enjoying a measure of success to-day are those which chiefly employ less skilled forms of labour. On the other hand, many of our old-established industries, which laid the foundation of our industrial prosperity in years gone by and employed large numbers of skilled workpeople at high rates of wages, are in a deplorable condition. The owners and managers of such industries are disheartened and discouraged by the burdens which have to be carried.

Superiority in manufacturing skill and efficiency—a superiority which is rapidly shrinking—cannot possibly overcome the crippling burden with which our industries are saddled in comparison with our foreign competitors. Moreover, there appears to be little, if any, progress in alleviating them. Taxation on a scale far heavier than in other great industrial countries is the result of extravagant national expenditure. (Hear, hear.) Interest and service of our National Debt amount to over £350,000,000 per annum, which is materially in excess of the total amounts raised by income and sur tax. Expenditure on social service has greatly increased during a time when trade and industry were declining rapidly.

Compared with the expenditure of Mr. Snowden's first year as Chancellor, this year's estimates show an increase of no less than £94,000,000, and this does not take account of the so-called loans to the Unemployment Insurance Fund. The fear of the Chancellor of the Exchequer himself that direct taxation has reached the limit of what commerce and industry can stand is only too well founded.

Possibly the chief handicap under which our manufacturers suffer is the relatively high rates of wages. After the War, when we experienced an artificial state of prosperity, and when the purchasing power of money was much less than it is at present, the standard of living amongst all classes of the community was appreciably raised. Leaders of labour exhibit an unwillingness to recognise that the standard of living must have some relation to the state of prosperity or otherwise of commerce and industry, and that rates of wages must be regulated according to those ruling in the countries with which we compete. Claims are being advanced for a reduction in working hours as a means of relieving unemployment, but this can only intensify the difficulty unless it is accompanied by a corresponding reduction in wages.

NEW INDUSTRIES.

Political interference is a further handicap from which industry suffers. A member of the Government, speaking recently in Lancashire, where the great cotton industry is in such a deplorable condition, recommended the setting up of new industries. But anyone attempting to create a new industry under the political and industrial conditions of to-day would require to be assured of the Home market. Under our existing policy he would probably find his market inundated with the goods of foreign competitors, who enjoy protection in their Home market and pay wages materially less than in this country. High rates of taxation also operate to discourage the starting of new industries. The principle of having to bear the whole of a loss but having to pay away from 25 to 50 per cent. of a profit does not appeal to business men. There is, however, another aspect of this question of new industries. Modern methods of mass production necessitate substantial capital to meet heavy initial expenditure. In circumstances such as the present it is almost impossible to obtain capital for new industries, for the investing public is not readily inclined to forget the manner in which it was exploited and plundered two or three years ago by new companies. At Sheffield eight months ago I gave figures relating to the companies formed in the second half of 1928 to establish new industries or exploit new inventions, and of which 95 per cent. of the shareholders' capital had been lost, not taking into account the substantial losses sustained by creditors. Before the confidence of the investing public can be restored there will have to be a drastic change in public company practice, and especially in regard to their direction and administration. Valuable as were the additional safeguards provided by the last Companies Act, further revision is urgently necessary in the light of the grave abuses that have

manifested themselves during the last two or three years. I have on several occasions emphasised the necessity for providing shareholders in public companies with a fair and proper method of exercising their voting powers, and with this I might couple the need for ensuring the independence of the auditor by making him in fact what he is in law, the servant of the shareholders and not of the directors. Victimisation of an auditor by the board is not an unknown thing, and another danger is that of an auditor being made responsible for acts attributable to the directors. The political scapegoat should not find his counterpart in joint stock company enterprise, and if he does it becomes a matter for the profession wholeheartedly to support an auditor who finds himself confronted by legal processes which should not be directed against him. (Applause.)

I wish it had been possible on this occasion to adopt a less pessimistic attitude, but no good purpose can be served by misplaced optimism. I feel confident that it is only by realising the seriousness of our position and coupling with it a determination to right matters, that measures can be devised which will enable us to emerge successfully from the depressed conditions with which we are surrounded. (Applause.)

I now formally move that the Report of the Council and the accounts for the year 1980 be adopted.

Mr. E. CASSELTON ELLIOTT (Vice-President) seconded the motion.

Discussion.

Mr. EDWARD BALDREY (London) said he did not propose to occupy the time of the meeting by congratulating the President on his very interesting speech, excellent in quality and delivered with Mr. Morgan's customary courage, but he would pass on to comment upon one or two matters to which reference had been made. It seemed to him that rationalisation might be one of two things. There might be a rationalisation which naturally emerged owing to what one might call the inevitability of economics. Such rationalisation or trustification need not in itself be harmful. But they got a totally different set of facts where rationalisation was forced on an unwilling party by a predominant group, whose interests were not so much concerned with the future as with advantages to be gained at the moment. That form of rationalisation was undoubtedly very much to the fore just now, and they all knew that that aspect of it was fraught with very grave danger. One minor effect of rationalisation had been touched upon by the President, namely, the freezing out of the small practitioner by big firms. Personally, he thought that as the big firms had attained their position by their unaided efforts, they deserved all the prosperity they had got. Nothing succeeded like success, and the smaller practitioners should work hard and endeavour to take their places. In all the dealings he had had with them he had found them invariably courteous, and on the whole they treated the small practitioner remarkably well. It was, he knew, a canon of good manners on these occasions to bar politics; but could they possibly bar politics nowadays? There was political interference in business; political interference before one made profits, and a horrible form of political interference afterwards. That being so he thought it was idle to say that they could

keep politics out of these discussions. The President could not express any official views, but individual members could do so in the face of the very grave problems which confronted the country to-day. Politicians spoke about an "economic blizzard," and while talking about a blizzard they warmed their hands at the fire of their own complacency and thanked God it was snowing harder in another country. Well, that was no good for this country, which was dependent to the extent of 70 per cent. of its daily bread on other countries. The question of tariffs must have serious consideration. Exceptional ills called for exceptional remedies, and they must face up to these things. In his (Mr. Baldrey's) opinion we were on an economic precipice. He entirely agreed with the President that this was not a time for misplaced optimism. There was no denying that things were extremely bad, and there was far too much ignorance in the world. If they had honest convictions they should express them fearlessly on every possible occasion and not be put off merely by politely refusing to offend other people's susceptibilities. (Applause.)

Mr. H. E. DAVIS (London) said he agreed that they should face up to the present day difficulties, as the last speaker had remarked, although they did not perhaps all agree with his remedies or even with his hero-worship. He regretted—perhaps he was a voice crying in the wilderness—that the President in speaking of the deficit on the Budget did not comment on Mr. Snowden's strictures two years ago on directors and the balance sheets that were sometimes issued. Now that Mr. Snowden had presented a Budget he could not repeat those remarks. How many members of their Society, he wondered, knew how much income tax was repaid each year that was not brought in at the end of the year as a liability? He had been very glad indeed to hear the President's references to the large firms squeezing out the smaller members of the profession, but the large firms were not always to blame. He thought the Society was making a mistake in trying to get a young fellow to pass in ten subjects in one year. They scrambled through the lot by being crammed, and yet the examinees knew really little about many of the subjects. He thought their examinations were tending to turn out a class of accountants who could only get through by cramming. Perhaps the Council could see their way to making the examinations slightly harder and not asking the candidates to take so many subjects at one time.

Mr. H. E. COLESWORTHY (London) said he was very glad to take the opportunity which seldom fell to the general members of the Society of congratulating the Council on the excellent report which was presented to them that day, and of expressing his appreciation of all the work they had carried out during the past year. He also wished to offer the President his sincere congratulations on the admirable address to which they had just listened. It had given them a great deal of food for thought and it was likely to have the same reception which had been accorded other speeches of the President during the last few months. It would provide food for thought and material for discussion to a much wider audience than was present in that room. These evidences of public interest in the utterances of the President of the Society could not fail to be pleasing to the general body of Incorporated Accountants. The outstanding feature of the President's address was his reference to rationalisation. He (Mr. Colesworthy) could not agree that it was a matter upon which any of them could arrive at a definite conclusion at the moment. It was prophesied in some quarters that rationalisation of industry would fail. Some said that it would ultimately be found to be no better than nationalisation, with all the disadvantages and none of the

possible advantages of the latter. There was a danger, therefore, of the profession being swept along on an experiment conducted from without—an experiment which, for all one knew, had no assurance of ultimate success. It was for these reasons that he expressed the opinion that the whole question deserved their very close consideration from all angles before they could arrive at a considered opinion. Within the last few days one of the national newspapers dealt with the problem from the point of view of the accountancy profession under the heading "Centralised Audits." It concluded with the definite view that the accountant must submit to the new movement, using the expression "This is the price which the accountancy profession must pay for the added prestige and importance to which it has worked itself in recent years." Whilst they must permit the newspaper editor to arrive at a cut and dried judgment in the space of the few hours at his disposal before his paper went to press, they could not allow themselves a similar privilege. Obviously the matter was receiving the close attention of the Council, and they should be content to leave the preliminary consideration of this thorny problem in their hands. (Applause.)

Mr. PERCY H. WALKER (Cardiff) said he would confine himself to one point of the President's address. The President always gave them in his public utterances something to catch hold of, and his remarks on rationalisation that day would cause more talk among Incorporated Accountants than anything that had been said for a number of years. He did think, however, that they were completely losing sight in their natural dislike of the glib slogan "rationalisation" of what rationalisation really meant. They had adopted one interpretation which was put upon it by industrialists—that it meant nothing more nor less than amalgamation or trustification. But if they went back to the League of Nations Conference from which it emanated, they would find that it was simply a step towards a far greater ideal, namely, the development of new ideas and of new industries and the improvement of the conditions of the worker, particularly on the lines of vocational training and educational selection. He thought if they could disconnect the whole idea of amalgamations from rationalisation and concentrate more on the other ideal, they would find that it was a seed from which would grow a great deal of prosperity. Take the amalgamation side. In South Wales they had seen very definite instances of the weakness of it. In the anthracite coal trade alone, prior to the trustification of that industry in the Swansea area they had a number of successful small companies running their own collieries, with local capital and employing local labour. All these had now been amalgamated into one cumbersome whole, and the only people who benefited from it were the shareholders who were in a sufficiently lucky position to be able to command a good price. Rationalisation in that form was bad. But rationalisation in the other form, he submitted, was a thing to which they, as Incorporated Accountants, should give very careful study and they should not condemn it until they had thought over the matter very fully. With those few remarks he would like to add his mead of praise to the President for the address he had given them.

Mr. J. HULBERT GROVE (London) said that as one of the very junior members of the Society he would like to say how much the younger members appreciated the work which the President and Council had done and were doing. They felt that they had a real live Council who were looking after their interests, including those of the younger members.

Mr. M. BENJAMIN (London) said he wished to identify himself with the remarks of the last speaker, and he

would also like to refer to what the President had stated with regard to the future of the profession and of new members of the profession. A previous speaker had referred to those who were already established in large practices, positions which they had attained by their own courage and ability, but he would like them to bear in mind that the members of the Society might not all be endowed with particular courage, and if each of them could look after himself it would hardly be necessary to have an Administrative Council to watch and protect the interests of the general body. There was no doubt at all that events had taken such a course that there was a tremendous advantage given to the already established practices. Their names were being brought forward continually in regard to prominent matters and they had means of publicity which were never available to the younger practitioner. He thought the Council should make it one of their most important duties to see that safeguards in respect of new members of the profession were properly taken, and he felt sure that as an outcome of the Presidential address that day the new members of the profession would take heart. The future strength of the Society lay absolutely in the hands of those new members, whom they must nurse until they were able to take care of themselves.

The PRESIDENT said they had listened with very great interest to the remarks which had fallen from the various members, and the Council very much appreciated the expressions in regard to the work they were doing. In view of the lateness of the hour he would proceed at once to put the resolution.

The resolution was then put to the meeting and carried unanimously.

Mr. C. HEWETSON NELSON, J.P. (Liverpool) said he had very much pleasure in proposing the re-election or election, as the case might be, of the following members of the Council:—Mr. Edward Cassleton Elliott, Mr. Walter Holman and Mr. William Paynter, all of London, and Mr. Richard Wilson Bartlett, J.P., Mr. Arthur Collins, Mr. William Allison Davies, O.B.E., Mr. Alan Standing, Mr. Frederic Walmsley, J.P., and Mr. Edward Watts Catherington Whittaker, J.P., all of the provinces. As would be observed from that list of names, they had young and old there, and that was pre-eminently the composition of their Council at the present time. He only wished to refer to the fact that both Mr. Walmsley and Mr. Whittaker had served honourably and usefully on the Council for the lengthy period of 46 years. (Applause.) It was well over a third of a century ago since their old friend Mr. Walmsley served in the office of President of the Society, and it was a matter of great gratification to the whole of the Council, and he was sure also to the whole of the members, that Mr. Walmsley was with them that day in renewed vigour, as was evidenced at their Council meeting that morning. He (Mr. Nelson) then said to him what he repeated now, that he sincerely hoped his rejuvenation would continue until they could move his re-election at the half-century mark. (Applause.)

Mr. H. J. BURGESS (London) said it was his pleasing duty to second the re-election or election of the gentlemen whose names had been submitted so ably by Mr. Nelson. He felt it a very great pleasure and privilege to do so. It had been his pleasing duty to work with them for some years now, and he had learned much.

The resolution was put to the meeting by the President and carried unanimously.

The PRESIDENT said he had now to move that the following members appointed by the Council to fill occasional vacancies, in accordance with Article 48, be

elected members of the Council:—Mr. Richard Alfred Witty, Fellow in Public Practice, London; Mr. Frederick Holliday, Fellow in Public Practice, Leeds; and Mr. Edmund Lund, M.B.E., Fellow, Carlisle. Mr. Witty was nominated to fill the vacancy caused by the resignation of Mr. McIntosh Whyte following medical advice. He (the President) would like to express their appreciation of Mr. McIntosh Whyte's valuable services to the Society—(hear, hear)—and particularly for his work on Committees. Mr. Witty had been actively associated with the Society's work as a former President of the London Students' Society and as one of the examiners. Mr. Frederick Holliday had been the President of the Yorkshire District Society and he had been appointed to fill the vacancy caused by the regretted death of Sir Charles Wilson. Mr. Edmund Lund, M.B.E., was the City Treasurer of Carlisle, and had advised the Council from time to time in regard to certain Parliamentary matters, and he was among those who established the Cumberland and Westmorland District Society.

Mr. FREDERIC WALMSLEY, J.P. (Manchester), in seconding the motion, said that the President had very clearly and very briefly informed members of the qualifications which they knew the three gentlemen named to possess, and he (Mr. Walmsley) was personally acquainted with those gentlemen. He would like just to say about Mr. Holliday that he knew him very well indeed, both professionally and privately, and he thought they could hope that the mantle of the lamented Sir Charles Wilson would fall comfortably upon his shoulders. He was a representative of Leeds and would be able to carry the flag of the Society very high, as Sir Charles used to do. Now he thought he ought to claim the indulgence of the meeting to say a few words, and they would be very few, to try and express his gratitude and appreciation of the kind way in which Mr. Nelson had spoken of him and of the work he had been able to do. It made him a little bit reminiscent when Mr. Nelson talked about him having served the Society for 46 years. It did not look like 46 years to him. He appreciated to the full the great kindness and even affection with which he had always been received by members of the profession, and now that they had their new hall he felt that their mission was about accomplished. The hall which they now occupied was an ornament to the profession and it added dignity to the work which they had been able to accomplish. He could assure them that his association with that great Society would always remain an abiding and sweet memory. (Applause.)

The resolution appointing as members of the Council the gentlemen named was put to the meeting and carried unanimously.

Mr. R. A. WITTY (London) said he would like to express his gratitude to the members for the honour they had conferred upon him in electing him a member of the Council. He had already discovered that the work involved was almost commensurate with the honour, but that work was very cheerfully undertaken by all the members of the Council in their desire to further the interests of the Society and in their particular endeavour to make the Incorporated Accountants' Hall a very worthy centre of international accountancy and every phase of commerce. (Applause.)

Mr. F. HOLLIDAY (Leeds), in thanking the members for his election and Mr. Walmsley for his very kind remarks, said that in many respects he could not fill Sir Charles Wilson's shoes, but he had one thing in common with him that the President did not seem ever likely to have, and that was the quality of weight. (Laughter.) He had been amazed to find the work that the President and his

colleagues had already put into the Society, and he appreciated very much the honour of being associated with them.

Mr. E. LUND (Carlisle) said he also wished to thank the members for his election to the Council. It was an honour which he appreciated very deeply indeed. As he explained to the Council that morning, he appreciated it perhaps for another reason, and that was because he was following his old chief, William Bateson, of Blackpool, with whom he was associated for twelve years in the Borough Treasurer's office in that town. He wished to add his mead of praise regarding their President's address. He was sure it would create much interest outside the walls of Incorporated Accountants' Hall.

Mr. C. A. SALES said he had very much pleasure in moving that Mr. Robert Heatley, Incorporated Accountant, Manchester, be re-elected as Auditor of the Society at a remuneration of thirty guineas per annum, and travelling expenses to be paid in addition; also that Mr. Arthur Henry Hughes (Hughes & Allen), Incorporated Accountant, London, be re-elected an Auditor of the Society at a remuneration of thirty guineas per annum.

Mr. C. A. HOLLIDAY seconded the resolution, which was carried unanimously.

Sir JAMES MARTIN, who was received with applause, said he had the privilege of submitting a vote of thanks to their President for his conduct in the chair that day, and also for all his services to their Society. Mr. Morgan had given them something to think about and something to talk about, and if he were not mistaken he had also given a wider audience something to think and talk about. (Hear, hear.) The duties of the President of that Society were very exacting and required the most strenuous application, and he was sure that everyone would agree with him that Mr. Morgan had responded nobly to every call which had been made upon him. In thanking him for his services so far and for his conduct in the chair that day he would also like to say that he hoped for some time to come they would have the pleasure of his guidance and goodwill and work in the Society.

The vote of thanks was carried by acclamation.

The PRESIDENT, in reply, said he very greatly appreciated the heartiness with which the meeting had received the resolution proposed by Sir James Martin and the very kindly and generous terms in which he had proposed it. The duties of President of that Society were certainly onerous and responsible. At the same time they gave one a great sense of satisfaction and pleasure in carrying them out. He was deeply impressed all the time with the desire evinced by everybody to assist him in carrying out those duties and in promoting the interests of the Society. He had already referred to the officers of the Society. He received more help and assistance than he could readily tell them from Sir James Martin himself. (Applause.) Sir James was always the one to whom they could fly whenever any matters of difficulty presented themselves. He was also deeply indebted to every member of the Council and much appreciated the support which they accorded to him in connection with his duties as President.

The proceedings then terminated.

46th ANNUAL REPORT.

The Council has pleasure in submitting to the members its Forty-sixth Annual Report.

NEW MEMBERS ELECTED.

During the year 1930, the names of 291 new members were entered upon the Society's roll, and 69 Associates

were advanced to the degree of Fellow. At the dates of election they were resident in the following countries:—

	Fellows.	Associates.	Total.
England and Wales ..	1	245	246
Scotland	—	4	4
Ireland	—	12	12
India	—	17	17
Canada	—	1	1
South Africa ..	1	7	8
East Africa ..	—	2	2
South America ..	—	1	1
TOTAL ..	2	289	291

ASSOCIATES ADVANCED TO FELLOWS.

England and Wales ..	..	..	..	56
Scotland .. ..	..	..	..	1
Ireland .. ..	..	..	..	2
India .. ..	..	..	..	3
South Africa ..	..	..	..	7
TOTAL ..	..	..	..	69

The figures for the past three years are as follows:—

	1928.	1929.	1930.
New members elected ..	275	251	291
Associates elected Fellows ..	61	49	69

NUMBER OF MEMBERS ON THE ROLL AT CLOSE OF YEAR.

The total number of members on the roll on December 31st last was 5,427, and consisted of 1,450 Fellows, 3,973 Associates, and 4 Honorary Members. Two Fellows also held rank as Honorary Members.

OBITUARY.

The Council regrets that the deaths of 40 members (19 Fellows and 21 Associates) were notified in 1930.

Among the names appearing in the obituary list is that of Sir Charles Henry Wilson, LL.D., Leeds, who rendered valuable service as a member of the Council from 1894 to the date of his death. Sir Charles Wilson was President of the Society during the years 1901 to 1904, and was Chairman of the Parliamentary Committee from 1911 to 1930.

EXAMINATIONS.

The number of candidates at the Preliminary, Intermediate and Final examinations was 1,896, of whom 973 passed and 923 failed.

The following are the comparative figures for the past three years:—

FINAL.

Year.	No. of Candidates.	Passed.	Failed.
1928	515	48%	52%
1929	556	46%	54%
1930	671	47%	53%
Total	1,742	817	925
		47%	53%

INTERMEDIATE.

Year.	No. of Candidates.	Passed.	Failed.
1928	893	51%	49%
1929	839	48%	52%
1930	883	52%	48%
Total	2,615	1,322	1,293
		50%	50%

PRELIMINARY.

Year.	No. of Candidates.	Passed.	Failed.
1928	344	63%	37%
1929	332	59%	41%
1930	342	58%	42%
Total	1,018	613	405
		60%	40%

Prizes and Honours Certificates were awarded to the following:—

FINAL EXAMINATION.

1st Certificates of Merit—

Passingham, Leslie Ernest, A.S.A.A., London (May, 1930) (Prize).

Dandeker, Narayan, B.Sc., London (November, 1930).

2nd Certificates of Merit—

Forde, Edward Michael, A.S.A.A., Dublin (May, 1930).

Forster, George Henry, A.S.A.A., Derby (November, 1930).

3rd Certificate of Merit—

Holland, Frank, A.S.A.A., London (May, 1930).

INTERMEDIATE EXAMINATION.

1st Place Certificates—

Paramour, Joseph Richard, London (May, 1930) (Prize).

Manning, Herbert Arthur, London (November, 1930) (Prize).

2nd Place Certificates—

Harrison, Joseph, Scarborough (May, 1930) (Prize).

Cliffe, Noel, Cardiff (November, 1930) (Prize).

3rd Place Certificates—

Hayhow, Henry, London (May, 1930).

Cole, Herbert John, Hull (November, 1930).

4th Place Certificates—

Russell, John Charles, London (May, 1930).

Ewart, John, Cardiff (November, 1930).

5th Place Certificates—

Clayton, Edgar Francis, Ipswich (May, 1930).

Jackson, Harold Maitland, Chelmsford (November, 1930).

6th Place Certificates—

Somerville, Charles Edward Branscombe, London (May, 1930).

Tottle, Albert James Rowland Gardner, Swansea (November, 1930).

7th Place Certificates—

Cowtan, Gladys Laura, London (May, 1930).

Matthews, Raymond Walter, Hull (November, 1930).

8th Place Certificates—

Booth, William Robert, Liverpool (May, 1930).

Surtees, Geoffrey Hutchinson, Bloemfontein (November, 1930).

PRELIMINARY EXAMINATION.

1st Place Certificates—

*Wade, Edwin John, Cardiff (May, 1930).

McParland, Cornelius, Belfast (November, 1930) (Prize).

* Disqualified for Prize by age limit.

GOLD MEDAL.

The Council has awarded the Society's Gold Medal for 1930 to Mr. Leslie Ernest Passingham, A.S.A.A., London.

DEPARTMENTAL COMMITTEE ON REGISTRATION.

During the year the Departmental Committee appointed by the President of the Board of Trade, over which the Right Hon. Lord Goschen presided, heard the evidence of representatives of the respective bodies of English

and Scottish Chartered Accountants, of the Society of Incorporated Accountants and Auditors, and of a number of other bodies of accountants. The Report of the Committee was issued in August, 1930, and the finding was that, on the evidence before them, they were of opinion it was not desirable to restrict the practice of the profession of accountancy to persons whose names would be inscribed in a Register established by law. The evidence on behalf of the Society was submitted to the Committee by Mr. Henry Morgan (President), Sir James Martin, Mr. C. Hewetson Nelson, and Mr. R. Wilson Bartlett.

INCORPORATED ACCOUNTANTS' CONFERENCE, 1930.

In response to the invitation of the Sheffield District Society, a Conference of Incorporated Accountants was held in Sheffield in September, 1930. The members and ladies were officially received and entertained by the Lord Mayor of Sheffield (Alderman C. W. Beardsley, J.P.) at the Town Hall. The Presidential Address was delivered by Mr. Henry Morgan, and Mr. C. Hewetson Nelson read a paper on "The Service of Accountancy in the Present Age." A dinner was given by the Society, at which representatives of the public, professional and industrial life of Sheffield were received by the President, who was accompanied by Mr. Percy Toothill, President of the Sheffield District Society. Among the principal guests were the Lord Mayor of Sheffield, the Right Hon. Arthur Greenwood, M.P., Minister of Health, the Right Rev. the Lord Bishop of Sheffield, and Mr. H. Fitch Kemp, President of the Institute of Chartered Accountants in England and Wales. The Council by formal resolution has expressed the thanks of the Society to the President, Committee and officers of the Sheffield District Society for the arrangements made for the Conference.

BRITISH DOMINIONS AND OVERSEAS.

Intercourse has been maintained with the Committees of Incorporated Accountants in the British Dominions. The President and other members of the Council have visited the Irish Branch, and have conferred with the Irish Committee upon professional matters in the Irish Free State.

The Council has received visits in London from Mr. A. F. C. Ross, Hon. Secretary of the Society's Canadian Committee, Mr. E. P. M. Sheedy, a member of the Society's New South Wales Committee, and Mr. C. V. Robertson, the Vice-President of the Society's Victorian Committee.

In May, 1930, the Council entertained at Incorporated Accountants' Hall a number of representatives of Overseas accountancy bodies and other members of the profession.

BRANCHES AND DISTRICT SOCIETIES.

The scheme for the development of Branches and District Societies has now been completed by the formation of a District Society for London and surrounding areas. The completion of the scheme is a matter of satisfaction to the Council, which has received the active co-operation of the officers of Branches and District Societies in their respective areas, and also at the Conferences with the Council held in London.

INCORPORATED ACCOUNTANTS AND CLIENTS' MONEYS.

The following resolution has been adopted by the Council:—

"That the Council of the Society of Incorporated Accountants and Auditors recommends all members to observe the current practice adopted by Incorporated Accountants of keeping the moneys of clients in a separate banking account or banking accounts exclusively used for the purpose."

DISCIPLINARY COMMITTEE.

The Council, upon reports of the Disciplinary Committee, excluded from the Society three Associates who were adjudged guilty of conduct which rendered them unfit to remain members. A Fellow was suspended from membership for a period of two years for conduct derogatory to the Society.

COUNCIL.

At the last annual general meeting Mr. Fred Woolley, J.P., Fellow in public practice, Southampton, and Mr. Ralph Macaulay Branson, Fellow in public practice, Leicester, were elected to seats on the Council.

Following medical advice, Mr. William McIntosh Whyte tendered his resignation as a member of the Council, which the Council accepted with regret. Mr. McIntosh Whyte had been a member of the Council for a period of seventeen years. The vacancy thus caused was filled by the appointment of Mr. Richard Alfred Witty, Fellow in public practice, London.

Mr. Frederick Holliday, Fellow in public practice, Leeds, was appointed to fill an occasional vacancy on the Council, caused by the death of Sir Charles Wilson.

A further casual vacancy, caused by the resignation of Mr. William Bateson, Fellow, Blackpool, has been filled by the appointment of Mr. Edmund Lund, M.B.E., City Treasurer, Carlisle.

The names of Mr. Witty, Mr. Holliday and Mr. Lund will be submitted to the annual general meeting for election to the Council, in accordance with Article 48.

The following members of the Council retire under the provisions of Article 49, and, being eligible, offer themselves for re-election:—

London.

Mr. Edward Cassleton Elliott.
Mr. Walter Holman.
Mr. William Paynter.

Provinces.

Mr. Richard Wilson Bartlett, J.P., Newport (Mon).
Mr. Arthur Collins, Liverpool.
Mr. William Allison Davies, O.B.E., Preston.
Mr. Alan Standing, Liverpool.
Mr. Frederic Walmsley, J.P., Manchester.
Mr. Edward Watts Catherington Whittaker, J.P. Southampton.

PRESIDENT AND VICE-PRESIDENT.

Mr. Henry Morgan and Mr. Edward Cassleton Elliott were unanimously re-elected to the respective offices of President and Vice-President at a meeting of the Council in May, 1930.

ACCOUNTS.

The accounts of the Society for the year 1930 are annexed to this Report.

A second gift of £200 (making £400 in all) of its own debentures has been made anonymously to the Society in augmentation of the sinking fund reserve.

HENRY MORGAN,

President.

E. CASSELETON ELLIOTT,

Vice-President.

ALEXANDER A. GARRETT,
Secretary,

Incorporated Accountants' Hall,
Victoria Embankment, London, W.C.2.

March 24th, 1931.

BALANCE SHEET, DECEMBER 31ST, 1930.

LIABILITIES.					ASSETS.				
	£	s.	d.	£	s.	d.	£	s.	d.
To MORTGAGE DEBENTURES				70,000	0	0	By Freehold Property—		
„ SUNDRY CREDITORS—							Incorporated Accountants' Hall, at Cost..	100,868	10 7
On Revenue Account..	5,426	13	1				„ Furniture and Fittings at Cost, less amount written off ..	3,889	5 10
On Capital Account ..	415	10	0	5,842	3	1	„ Library at Cost, less amounts written off ..	300	0 0
„ Incorporated Accountants' Journal (Loan) ..				1,000	0	0	„ INVESTMENTS AT COST—		
„ Bank Overdraft ..				2,458	2	10	£6,000 Os. Od. 4½% Conversion Stock 1940-44 ..	5,461	13 3
„ Subscriptions for 1931 (paid in advance) ..				200	11	0	£3,300 Os. Od. 4% Funding Stock 1960-90 ..	2,786	16 6
„ Examination Fees (paid in advance) ..				294	10	6	£1,129 7s. 2d. 3½% India Stock ..	1,272	4 3
„ Reserve for Debenture Redemption—							£550 Os. Od. 4% Union of South Africa Consolidated Stock 1943-63 ..	547	7 0
Balance from 1929 ..	1,458	0	0				£550 Os. Od. 3½% New South Wales Stock 1930-50 ..	535	13 3
Annual Instalment ..	1,250	0	0				£500 Os. Od. 3½% Queensland Stock 1950-70 ..	478	3 6
Interest ..	65	16	5				£250 Os. Od. 3% Local Loans Stock ..	248	16 0
Gifts of Debentures during year ..	200	0	0	2,973	16	5	£600 Os. Od. 3% London County Consolidated Stock ..	517	12 0
„ ACCUMULATED FUND—							£200 Os. Od. 3% Nottingham Corp. Stock 1920-60 ..	192	0 0
Balance at December 31st, 1929 ..	38,105	12	7				£500 Os. Od. 3% Leeds Corporation Stock ..	463	7 0
Add Surplus for 1930 ..	1,675	17	9	39,781	10	4	£900 Os. Od. 4% L. & N.E.Ry. Deb. Stock ..	1,104	11 6
							£500 Os. Od. 4% L. & N.E.Ry. Second Pref. Stock ..	637	2 0
							£150 Os. Od. 5% G.W.Ry. Guar. Stock (Market Value of Investments, December 31st, 1930, £13,105 9s. 10d.)	248	19 0
								14,494	5 3
HENRY MORGAN, President.							„ GIFTS—		
C. HEWETSON NELSON,							£400 Os. Od. 5% Society of Incorporated Accountants & Auditors Debentures	400	0 0
Chairman of Finance Committee.							„ Sundry Debtors and Dividends accrued	720	17 0
April 17th, 1931.							„ Cash at Bank and in Hand ..	1,877	15 6
								£122,550	14 2
								£122,550	14 2

AUDITORS' REPORT TO THE MEMBERS.

We report to the members that we have examined the foregoing Accounts, together with the books of the Society and the vouchers relating thereto, and have verified the Investments and Cash Balances. We have obtained all the information and explanations we have required, and, in our opinion, the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Society's affairs, according to the best of our information and the explanations given to us, and as shown by the books of the Society.

ARTHUR H. HUGHES } Incorporated
ROBERT HEATLEY } Accountants,
Auditors.

LONDON, April 15th, 1931.

Dr.		REVENUE ACCOUNT FOR THE YEAR ENDING DECEMBER 31st, 1930.								Cr.	
EXPENDITURE.					INCOME.						
£ s. d.					£ s. d.					£ s. d.	
To Salaries					5,143	12	3	By SUBSCRIPTIONS		15,677	10 3
" Rates		793	0	11				" ENTRANCE FEES—			
" Insurances		123	17	10				71 Fellows		393	15 0
" Housekeeper, Lighting, Telephone, &c. .. .		800	18	7				289 Associates		3,029	5 0
					1,717	17	4			3,423	0 0
" Travelling Expenses ..		940	0	3				" EXAMINATION FEES		5,852	12 6
" Stationery and Printing, including Year Book ..		2,333	5	11				" DIVIDENDS ON INVESTMENTS (Gross) AND GIFTS, less Bank Interest paid ..		619	3 8
" Postages and Telegrams ..		399	16	8				" SUNDRY FEES, &c.		507	2 3
" Legal and Parliamentary Expenses		810	7	9				" HIRE OF ROOMS		358	8 0
" Advertisements		669	0	5				" CONTRIBUTION FROM Incorporated Accountants' Journal TOWARDS OFFICE EXPENSES		200	0 0
" Subscriptions and Contributions to Chambers of Commerce		60	18	0							
" Auditors' Fees and Expenses		68	19	8							
" Miscellaneous Expenses ..		702	14	1							
					5,994	2	9				
" Expenses of Examinations and Prizes					3,663	16	2				
" Grants to Branches, District and Students' Societies					3,004	13	2				
" Debenture Interest (Gross) ..					3,500	0	0				
" Additions to Library ..					170	2	8				
" Depreciation of Furniture, &c.					193	5	0				
" Corporation Duty					11	11	9				
" Conference Deficit					247	1	5				
" Reserve for Redemption of Debentures :—											
Annual Instalment and Interest on Accumulation and Gifts ..					1,315	16	5				
" Balance, being surplus of Income over Expenditure for the year ..					1,675	17	9				
					£26,637	16	8			£26,637	16 8

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to, and promotions in, the Membership of the Society have been completed since our last issue :—

ASSOCIATES TO FELLOWS.

- ALEXANDER, JAMES ARNOT, C.A. (Alexander Bros.), 50/51, National Mutual Buildings, Smith Street, Durban, South Africa, Practising Accountant.
- COLEMAN, EDWARD PENNY (William C. Tuke & Co.), 38, Walbrook, London, E.C.4, Practising Accountant.
- CRICK, FREDA GLADYS (Swallow, Crick & Co.), Milton House, 38, Cowgate, Peterborough, Practising Accountant.
- CURRY, WILLIAM HENRY, 8, Beech Grove, Undercliffe, Bradford, Practising Accountant.
- LODGE, MORRIS, Treasurer and Accountant to the Borough of Weymouth, Municipal Offices, Weymouth.
- SIMPSON, JOHN DAVID, 4, Park Place, Cardiff, Practising Accountant.

ASSOCIATES.

- AARONOWITCH, HARRY AARON, Clerk to Alex. Thal, White & Co., United Buildings, 53/55, St. George's Street, Cape Town, South Africa.
- BETTY, REGINALD GATH, Clerk to Leith, Freake & Cade, 75, Maitland Street, Bloemfontein, South Africa.
- BRASSINGTON, CYRIL, A.C.A. (Grant-Smith & Brassington), Gresham Chambers, Lichfield Street, Wolverhampton, Practising Accountant.
- CRESSWELL, FREDERICK JOSEPH JAMES, Clerk to Deane and Thresher, S.A. Mutual Buildings, Hoffman Square, Bloemfontein, South Africa.
- EBBAGE, ROBERT, formerly Clerk to Clarke & Eckersley, 20, Mount Street, Manchester.
- GAGG, CYRIL JOHN, Clerk to B. M. Patton, 84, Union Street, Torquay.
- GREEN, JAMES, formerly Clerk to Hutchinson & Openshaw, Tower Buildings, Wallgate, Wigan.
- KNIGHT, WILLIAM LESLIE, Clerk to W. Murray Smith and Berend, 378 and 380, Smith Street, Durban, South Africa.
- ROBINS, KENNETH COURTICE, Clerk to J. H. Chown, Lloyds Bank Chambers, Penzance.

CLAIM AGAINST ACCOUNTANTS FOR ALLEGED BREACH OF DUTY.

Sitting as Commissioner in the Civil Court at Manchester Assizes last month, Mr. H. du Parcq, K.C., heard an action to recover damages for alleged breach of duty brought by Messrs. Dimmock & Cowtan, stockbrokers, Spring Gardens, Manchester, against Messrs. Bayley, Wood, Cave & Co., Chartered Accountants, Booth Street, Manchester.

Mr. Cyril Atkinson, K.C., M.P., with Mr. W. Webber, for the plaintiffs, said that the chief member of the defendant firm was Mr. Vipond, who was responsible for the preparation of the plaintiffs' income tax returns, and it was alleged that by his negligence plaintiffs had probably lost between £8,000 and £10,000. The parties had agreed to take the loss at £5,000.

It was stated that after making a profit of £14,000 in 1927 and £23,000 in 1928, the plaintiffs suffered a loss of £5,000 in 1929. On October 3rd Mr. Cowtan, while in London, learned that under the Finance Act if a change were made in the partnership and this was communicated to the Income Tax Authorities, the income was not taxed on the previous high profits. At this time the admission of a new partner was stated to be in contemplation.

Mr. Vipond was informed of the interview, and it was alleged that his failure to follow the matter up had been responsible for the plaintiffs suffering the loss of the amount claimed.

Sir Leslie Scott, K.C., with Mr. P. Vos, for the defendants, contended that it was not part of an accountant's profession to advise a client to change his identity or to change his business.

Sir Leslie Scott, replying to a question by the Commissioner, said that the plaintiffs had to show that Mr. Vipond knew what was said. He had said in evidence that he never understood he was instructed to look into the question as to whether a change in the partnership could be made in such a way as to give a form of exemption from taxes or a reduction of income tax liability.

Mr. Cyril Atkinson then announced that the case had been settled in what he thought was a very fair way. Mr. Cowtan, he said, was quite satisfied as to the accuracy of his recollection, but he was equally satisfied, after what had been said, that Mr. Vipond did not understand in October what he was being asked to do. The true view in the case was that there had been a genuine misunderstanding, although he thought he had made things clear. There was no reflection on Mr. Vipond's professional skill and knowledge, and there would be judgment for the plaintiffs for £2,500 and costs, half the amount claimed. "Mr. Vipond will remain, as he always has been, our trusted advisor in these matters," concluded Mr. Atkinson.

Sir Leslie Scott said that he thought in the circumstances there had been a genuine misunderstanding and Lloyd's Underwriters had behaved very well.

Mr. H. du Parcq, K.C., the Commissioner, said that he had made up his mind that both the gentlemen were perfectly honest, and one could not say more than that. He had been impressed by the fact that the plaintiffs were still clients of the defendant firm. What had happened was that an unfortunate misunderstanding had had unfortunate results to two very honest citizens. They had taken a most sensible way of coming to an agreement that was highly satisfactory. That had been assisted and made possible by the action taken by Lloyd's Underwriters.

MANUFACTURER'S FALSE TAX RETURNS.

Theophile Jean Baptiste Desnos, 55, described as a chemical manufacturer, of Peckham, pleaded guilty at the Old Bailey to making false statements in tax returns.

Sir Percival Clarke, prosecuting, said that there were three classes of offence—one in respect of Super Tax returns for a period from 1921 to 1927; one in respect of Income Tax returns from 1915 to 1924; and a third in respect of false accounts of certain companies.

Desnos was a British subject and British born. He was sole director and virtually sole shareholder of the Tasmanian Eucalyptus Oil Company, which was concerned with refining and dealing in eucalyptus oil in London and Australia. Up to 1909 he apparently rendered proper accounts. After that year profits amounting to £19,000 on the Australian business were deliberately concealed from the Inland Revenue. In 1927 it was discovered that he was the holder of certain shares, and an investigation took place. Desnos then must have appreciated that it was his duty to make a full and complete confession of all the omissions from his returns. He said that his accountant had all the records and that everything was in order. He had won a lot of money by gambling which might account for large sums in his banking account. He was, he added, known as "Lucky Desnos." As the result of the inquiry it was estimated that his tax liability was £10,000, and this he paid. Subsequently other omissions were revealed. Desnos declared that he had won £80,000 at Monte Carlo. Most of this money he had in large notes, and it was paid largely to a woman dealing in saccharine. Desnos, said Sir Percival, made further tax payments amounting with the previous payment of £10,000, to £35,200. But this £35,200 was far short of what was due, Sir Percival added. "Had it not been for the persistence of the Revenue, whose inquiries lasted a considerable time," he said, "these frauds would not have been discovered and there would have been lost in tax to the Revenue a sum of £58,000."

Mr. Sydney Barnes Bryant, Incorporated Accountant, called for the defence, said that he was instructed in December of last year to do his utmost to assist the Revenue to clear up the position. Through him the agreed figure of indebtedness was increased from £41,000 to £58,000. He had only material to go upon which was before the regular accountant of Mr. Desnos.

Mr. Roland Oliver, K.C., for the defence, submitted that if Desnos had gone at first to Mr. Bryant instead of relying on the man who had been his accountant for twenty years, there would have been no prosecution. No money would be lost to the Revenue. Everything had been paid which had been asked for, and since the prosecution Mr. Bryant had for Desnos discovered £17,000 more than the Revenue had discovered. The assets which Desnos had were worth on paper from £90,000 to £100,000, and steps would be taken to pay everything. The investigations had dragged on for four years, and the shadow of the prosecution had been over the defendant for that period. He had therefore been pretty heavily punished.

Mr. Justice Charles said Desnos had pleaded guilty to a long series of deliberate frauds. The case was a serious one. It has been put before me, he said, as a plea in your favour that your accountant, Mr. Grover, neglected to disclose at a time when by disclosure he might have saved you from prosecution, these matters of omissions from your Super Tax and Income Tax. To a certain extent

and to a certain extent only, it may be so, though you yourself, I am well convinced, were quite cognisant of what went on up to the time that the blow fell and you were found out. Your disclosures came piecemeal; your answers were unsatisfactory. It is quite impossible to take the course adumbrated by Mr. Oliver. The position is too serious. The sentence of the Court is that you be kept in prison in the second division for twelve months and that you pay the whole costs of the prosecution.

Changes and Removals.

Messrs. Crawford & Allen, Incorporated Accountants, announce a change of address to Scottish Provident Buildings, 2, Wellington Place, Belfast.

Messrs. Deane & Thresher, Incorporated Accountants, have removed their offices to S.A. Mutual Buildings, Hoffman Square, Bloemfontein, South Africa.

Mr. W. R. Frost, Incorporated Accountant, has commenced to practise at 3, High Street, Totnes, under the style of W. R. Frost & Co.

Mr. B. Harrison, Incorporated Accountant, announces a change of address to 23, Highbury, Newcastle-on-Tyne.

Messrs. Kingscott, Dix & Co., Incorporated Accountants, have removed their offices to 1, Barton Street, Gloucester.

Messrs. Sidney W. Revill & Co., Incorporated Accountants, have removed their offices to 4 and 5, Warwick Court, Gray's Inn, London, W.C.

Messrs. Sastri & Shah, Incorporated Accountants, have removed their offices to Oriental Assurance Buildings, Armenian Street, Madras.

Messrs. J. Tomlinson & Co., Incorporated Accountants, 8, Clarence Arcade Chambers, Stamford Street, Ashton-under-Lyne, announce that the practice hitherto carried on at that address will be transferred to Grosvenor Chambers, 33, Blackfriars Street, Manchester, under the style of Tomlinson, Street & Co.

Mr. E. A. Woods, Incorporated Accountant, has commenced public practice at 19, Gold Street, Northampton.

ANGLO-SPANISH & SPANISH-AMERICAN INSTITUTE

It is proposed to form a Birmingham and West Midland Branch of the Anglo-Spanish and Spanish-American Institute of London. The movement has been started as a result of the growing realisation of the direct relation between culture and trade, particularly as an aid to the development of British commerce with the Latin countries of South America and their mother states, Spain and Portugal. A great impetus has been given to the movement by the recent visit of H.R.H. the Prince of Wales (President of the Institute) to Birmingham.

An inaugural meeting will be held in the University of Birmingham, Edmund Street, on June 11th at 5.45 p.m. The meeting will be addressed by the Honorary Director of the London Institute, His Excellency Lieut.-Col. Sir Charles H. Bedford, D.C.L., LL.D., Spain, and the chair will be taken by Mr. F. L. J. Hickinbotham, the Consul for Peru. A cordial invitation is extended to all who are interested in the trade, languages and literature of Spanish and Portuguese speaking countries.

Society of Incorporated Accountants in Ireland.

ANNUAL MEETING.

The twenty-eighth annual general meeting of the Society of Incorporated Accountants in Ireland was held on May 13th, the President, Mr. Robert Bell, being in the chair. There were also present Mr. A. H. Walkey, Mr. R. J. Kidney, Mr. C. P. McCarthy, M.Com. (Cork), Mr. T. Condren Flinn, Mr. W. H. Jordan (Drogheda), Mr. A. C. Storey, Mr. A. L. Riley, Mr. A. P. Gillespie, Mr. C. J. Dalton, Mr. R. L. Reid, Mr. W. A. Kenny, Mr. J. G. Dowling, Mr. T. R. Beddy, Mr. G. J. Moore, and Mr. A. J. Walkey (Hon. Secretary). Apologies for non-attendance were received from Mr. A. J. Magennis (Cork), Mr. James Boyd, Mr. Norman Booth, Mr. D. T. Boyd, and Mr. J. D. Thompson (Belfast), Mr. J. A. Kinnear, Mr. J. H. Barton and Mr. E. W. Hall (Dublin).

President's Address.

In moving the adoption of the report and accounts, the President said: I wish at the outset to thank the members of the Society of Incorporated Accountants in Ireland, the members of our Council, and our Honorary Secretary for the unanimous and whole hearted support they have given to me during my term of office as President. I wish also to acknowledge the personal support given to me by Mr. Henry Morgan, the President of our Parent Society, Mr. Garrett and Mr. Edwards.

It has been my privilege officially to represent you at various functions on both sides of the Irish Sea, and it was a great satisfaction to me to find that our Society everywhere received recognition of the important position it occupied in the accountancy profession. As is well known, the Society of Incorporated Accountants confers on its members a privileged title which is accepted throughout the world. It is therefore the duty of our Branches and of our individual members to preserve intact those high ideals on which our founders built our structure and which are summarised in the words "Reliability and Integrity," first applied to us by an eminent Judge and now incorporated in the crest of our Society. It is a matter for congratulation that our increasing membership in Ireland is still bound together as an integral unit by our Irish Branch, and that through it both the Irish Free State and Northern Ireland members are represented on the Council of our Parent Society as an Irish unit.

We as accountants must view with alarm the continued depression in the life of the commercial community, which in its world-wide application has been without precedent. In looking for cause and cure we are supplied with data, the views of experts, the records of combines, the findings of Commissions, and the collaborations of nations such as never before were available, towards finding a solution of commercial difficulties. The general effect, however, of all this is to intensify rather than to allay our feeling of alarm. Is it a corollary of the amassing of this information that taxation, both municipal and national, has assumed proportions far in excess of any peace time taxation ever known? The accountancy profession has in recent years been accorded a place in the life of the community in importance far beyond any previously experienced. Is this also a corollary of the amassing of the information I have mentioned, or is it in consequence of modern taxation? If the latter, I think we are in danger of losing the substance in chasing the shadow. I suggest that the labour spent in attending to taxation matters is not production in its true sense, and that our services to the

community would be more beneficial if by simplification of taxation we were able to devote our time more and more to acting in an advisory capacity, whether to private or public boards, municipal bodies or national administration.

As an Irish body we have at heart the best interests of Ireland, and welcome the fact that conditions both in the Irish Free State and Northern Ireland compare favourably with those existing in England and throughout the world. We rejoice that the Governments in Ireland are exerting all their influence in fostering Irish industries, in establishing increased commerce, in extending facilities to tourists, and in improving the status of their people. In this programme they have the wholehearted support of the Society of Incorporated Accountants in Ireland.

ELECTION OF OFFICERS.

The following officers were elected for the ensuing year:—President, Mr. James A. Kinnear (Dublin); Vice-President, Mr. James Boyd (Belfast); Hon. Auditor, Mr. T. Condren Flinn (Dublin); Hon. Secretary, Mr. A. J. Walkey (Dublin). The retiring members of the Council, Mr. A. J. Magennis, Mr. James Boyd and Mr. A. H. Walkey, were re-elected.

Report.

The report referred to the recent death of Mr. William T. Graham, of Belfast, who was a member of the Committee for seventeen years, until his resignation owing to ill health. During this long period he rendered many services to the Society, and not the least of these was his work in connection with the Belfast examination centre. He was mainly instrumental in its establishment, and for a number of years undertook responsibility for the necessary arrangements and supervision.

A record number of candidates sat at the Dublin and Belfast examination centres in May and November, 1930, the total being 72, comprising 21 Final, 24 Intermediate, and 27 Preliminary candidates. Of these, exactly 50 per cent. were successful, and at the Final examination held in May, 1930, Mr. Edward M. Forde, of the Chief Accountant's Department, Department of Industry and Commerce, Dublin, obtained the Second Certificate of Merit. This was formally presented to him at the annual general meeting of the Dublin Students' Section. The total number of candidates who sat for this Final examination was 331.

The membership of the Society, both in the Irish Free State and in Northern Ireland, had continued to increase, and now consisted of 40 Fellows and 107 Associates, whilst there was also a very satisfactory increase in the membership of the Students' Sections. In addition to the usual lectures and some social events, a very interesting debate took place in Dublin between Chartered and Incorporated students.

Two annual dinners in Dublin, one on February 8th, 1930, and the other on January 26th, 1931, had taken place during the period of fifteen months which had elapsed since the last general meeting. Mr. Ernest Blythe, Minister for Finance, was the principal guest at both dinners, the first of which was also attended by Mr. E. Cassleton Elliott, now Vice-President of the Society, and the second by Mr. Henry Morgan, the President. The annual dinner of the Belfast and District Society was held on December 12th, 1930, when the principal guest was the Viscount Charlemont, Minister of Education in Northern Ireland.

At the last general meeting, reference was made to the Irish Free State Bankruptcy Commission which was then

shortly expected to issue its report. This had since been published, and the recommendations in regard to the liquidation of joint stock companies were particularly interesting to the profession. In the main they followed the provisions of the English Companies Act, 1929, and it was to be hoped that legislation on the lines suggested would be introduced as soon as possible. There would, of course, be very considerable delay if such legislation were deferred until a complete new Companies Act could be passed, but there seemed to be no reason why the winding up provisions contained in the Companies Act, 1908, should not be amended.

Incorporated Accountants' Golfing Society.

A match was held at Walton Heath on Wednesday, May 13th, between the Incorporated Accountants' Golfing Society and the Solicitors' Golfing Society. The result of the day's play was a win for the Solicitors' Golfing Society by 12½ matches to 5½.

Solicitors.	Score	Incorporated Accountants.	Score
A. N. Other	.. ½	B. de V. Hardcastle	.. ½
Malcolm Clark	.. —	A. T. Keens	.. .2 up
H. P. T. Lattey	.. 3 & 1	H. J. Sier	.. —
R. P. Gladstone	.. 6 & 5	M. White	.. —
E. P. Kenward	.. 4 & 3	F. Martin Jenkins	.. —
E. H. Parry	.. 5 & 3	E. Woolgar	.. —
J. Allen	.. 5 & 4	B. L. Clarke-Lens	.. —
J. St. E. Daniel	.. 3 & 2	W. Nicholson	.. —
E. L. Green	.. —	L. Jordan	.. .1 up
R. P. Hamp	.. 4 & 3	T. F. Grundy	.. —
R. E. Attenborough	9 & 8	A. W. MacGowan	.. —
E. S. Trehearne	.. —	H. Townsend	.. .2 up
	8½		3½

The result of the four ball competition held in the afternoon was as follows:—

Solicitors.	Incorporated Accountants.
A. N. Other	B. de V. Hardcastle
Malcolm Clark	A. T. Keens
H. P. T. Lattey	H. J. Sier
R. P. Gladstone	M. White
E. P. Kenward	F. Martin Jenkins
E. H. Parry	E. Woolgar
J. Allen	B. L. Clarke-Lens
J. St. E. Daniel	W. Nicholson
E. L. Green	L. Jordan
R. P. Hamp	T. F. Grundy
E. S. Trehearne	A. W. MacGowan
	H. Townsend
	4
Total	.. 12½
	2
	5½

Mr. J. O. Kettridge, F.S.A.A., has been decorated by the French Government with the Palmes Académiques and has been appointed an Officier d'Académie. This, we understand, is in recognition of the services rendered by him in compiling a French-English and English-French dictionary of commercial and financial terms and phrases, a notice of which appeared in our March issue under the head of Reviews.

Mr. Samuel Lord, Borough Treasurer of Acton, has been appointed President of the National Association of Local Government Officers.

Some Notes on Shoe Manufacturers' Costs.

A LECTURE delivered to the East Anglian District Society of Incorporated Accountants by

MR. WILFRED ROBINSON,
INCORPORATED ACCOUNTANT.

The chair was occupied by Mr. H. HARPER SMITH, F.S.A.A.

Mr. ROBINSON said: Boot and shoe costing cannot be said to be by any means an exact science. The principal materials employed have no uniformity in size, shape, quality, or value. Like human faces, no two skins are exactly alike, and it is therefore impossible to be able to foretell with any exactitude what the cutting value of any particular lot of skins will be in work. Moreover, when one considers that in the manufacture of a boot or shoe there are 100 to 150 separate labour operations, all of which are obviously of very small wage value, you will appreciate that job or process costing is out of the question. Such a system would entail a vast amount of work, and a cost totally disproportionate to the value of the records when obtained.

The system generally adopted in the trade proceeds along these lines. Each department is charged with the material, labour and proportion of overheads applicable to it period by period, and against these charges are set off, or "recovered" (the term generally used in the trade), the value of the departmental output computed for each line from preliminary estimates of manufacturing costs.

The working accounts are provided with columns in order to show week by week the profit or loss under each of the heads of Material, Labour and Expenses, the profit or loss, of course, really representing the difference between actual and estimated costs. These records are supplemented by cutting sheets for both upper material and bottom stuff, showing the profit or loss on each lot of skins cut, and these cutting sheets provide a very practical check on waste and bad workmanship in cutting, the most important labour operation, from the point of view of cost, in the manufacture of the shoe. It will therefore be seen that in principle the general system in vogue is extremely simple; but notwithstanding its simplicity, it is eminently practical, easy and inexpensive to run, and adequately serves its purpose.

ESTIMATING.

When a new style of shoe is produced, the cost of it is first of all estimated. It is on this estimate that the selling price is based, and you will therefore realise that in its preparation a very considerable amount of care, skill and experience is called for. This work, indeed, is by far the most important part of the work of the cost office. In these days of cut prices and keen competition an over-estimate of so small an amount as one penny may place a particular style of shoe right out of the market; or, on the other hand, an understatement of the cost, if allowed to continue, would result in considerable loss to the manufacturer.

An estimate card is first of all prepared, giving, in columnar form, under the heads of Material, Labour and Expenses, the cost of each component part of the shoe, each labour operation, and the proportion of factory overhead expenses applicable to that particular type of product.

As, I should say, it is extremely unlikely that any of you will ever be called upon to cost a shoe I do not propose

to trouble you with a detailed description of every individual material item and labour operation involved. I must, however, mention the principal items of material cost and the principal labour operations.

Pattern-cutting is the first operation, but owing to the difficulty prevailing in these times of never knowing how soon or how late a particular style of shoe will have run its lifetime, this operation has no place on the estimate card, but the whole of the charges of the pattern room are treated as part of the factory on-cost.

The actual manufacturing operations may be classified under six principal heads, namely, Clicking (or cutting the uppers), Closing (the operation of machining the outsides and the linings together in readiness for the bottoms to be attached), Sole Cutting, Making (the operation by which the uppers are attached to the bottoms), Heeling, and Finishing. Each of these processes has its own department, and, of course, there may be several other departments for sub-dividing the work where standardisation is possible and the volume of work demands it.

The majority of the labour operations are performed at piece-work rates, which are fixed by agreement with the Operatives' Union officials from time to time. Where, however, the operative is paid at time rates, his earnings record, computed at the price allowed on the estimate card, is compared week by week with the wages paid, and a check by this means obtained. Piece-work rates, of course, take care of themselves.

The most difficult part of the estimator's work lies in costing the material, owing to the enormous variety of leathers used, including kids, calf, lizards, crocodile, snake, shark, and ostrich, each of which has its own distinct size, shape, and cutting value.

Past experience or actual test are the only guides to the determination of the cutting area of a skin and the percentage of waste which must be allowed for in the costing.

After the patterns are cut, these are placed on squared paper, and the approximate area of the whole obtained by this means. The percentage of waste to be allowed having been determined, a simple proportion sum will then give the total cost of the uppers to be recorded on the estimate card.

Costing the bottom stuff is not so difficult. The hides used have much bigger cutting areas, there are not the same differences in quality, and the percentage of waste is more definitely known.

Bottom leathers are costed by weight and not area, as is the case with upper leathers. They are bought from the tanners in a more or less prepared state—that is to say, they are purchased in bends—a bend being half a hide, with the neck and belly portion cut off. The bend is the only part of the hide of practical use for bottoming, and its thickness varies, fairly uniformly, from the part nearest the neck down to the part near the tail of the animal, where the hide is thickest. The soles when cut are graded according to thickness by a measurement known as an iron. Thus, the soles cut from the thickest part of the hide may be 9 irons in thickness, ranging down to 5 irons at the neck. The cost per sole is simply determined by multiplying out the number of soles of each grade by the number of irons of that grade and dividing the total cost of the bend by the result, thus giving the cost per iron for the whole. Assuming, therefore, the cost per iron worked out at 1d., a five-iron sole would be costed at 5d., a six-iron sole at 6d., and so on.

The remainder of the material consists of silk and cotton, nails and tacks, eyelets, buttons, stiffeners, toe casings, and other accessories. Many of these small items

find a place on the estimate card, as their cost is definitely known. Those, however, the cost of which cannot be exactly determined, are regarded as an expense and included on the on-cost.

I come now to the treatment of factory expenses, or on-cost. In a factory manufacturing only one type of shoe there would be little, if anything, to be gained by splitting up the expenses departmentally, since every shoe produced would pass through every department, and it would be sufficient to spread the whole of the factory expenses over the total factory output. Where, however, several different types of shoe are manufactured it is obviously necessary to assess the expenses appropriate to each department to the type of shoe produced in that department. Otherwise, a child's sandal made on the veldtschoen principle, the simplest of all modern methods of manufacture, would be erroneously saddled with a proportion of the expenses of the department producing, say, high-class ladies' welted shoes, the processes of which are much more numerous, complicated and costly.

A datum line is first of all fixed, representing the anticipated output in pairs of each department for the season. This, of course, is governed by the general state of trade of the country, fashion, the manufacturing policy to be adopted, the maximum capacity of the department, and other factors, most of which are purely matters of judgment.

The estimated direct wages necessary for the production of the anticipated output is next arrived at from past records, and the expenses of the department, which can be fairly accurately scheduled, are expressed as a percentage on the direct wages.

The correct method of allocating indirect expenses is a subject that has given, and still gives, rise to considerable controversy amongst cost accountants, but in the shoe trade we are satisfied that the vast bulk of indirect expenses vary most closely with the direct wages paid, and moreover, this method has the great advantage of simplicity of application.

It may be necessary from time to time to revise the estimates as cost of material fluctuates, or as changes take place in labour costs. Generally speaking, however, the price once fixed for any style of shoe stands for the season.

Owing to the fickleness of fashion, and the rapid changes that are constantly taking place in the styles of shoes demanded by the public, many styles manufactured for the fashion trade become obsolete in a few months. These rapid changes of fashion are the cause of considerable anxiety to the manufacturer, especially where large stocks have to be carried, as you will appreciate that every change of fashion multiplies the loss suffered by way of depreciation of stock, to say nothing of the hundreds of pounds' worth of plant in the shape of patterns and lasts which have to be scrapped as a consequence.

CUTTING SHEETS.

What I have already told you relates purely to estimating, and I shall now proceed to explain how the estimates are checked by means of the departmental accounts proper and other supplementary records. I will deal with the supplementary records first.

The operation of cutting the upper material is highly skilled work and it is of the greatest importance that every operative on this work should thoroughly understand his job if waste of valuable material is to be avoided. In the production of the best grades of footwear, to ensure that only the best parts of a skin are used, practically the whole of the clicker's work is performed by hand. The clicker must avoid all flaws and weak spots, and he must be careful to see that the several component parts of the

upper are cut in the right direction of the skin. There is always more stretch across the skin of an animal than there is in the length, and it is part of the clicker's art to be able to cut the front of the shoe (the part most frequently looked at and the part which has to take most strain in wear) from that portion of the skin best suited for those purposes. Inferior grades of shoes do not call for the same amount of skill and care. The skins are cut without regard to these considerations, and, indeed, without the necessity for hand-clicking at all. For such productions, clicking presses are used which stamp out the several parts of the upper, and the percentage of waste is comparatively negligible.

In the first place, all skins used for the upper parts of the shoe are graded and charged out from the store to the clicking room at fixed basic prices according to grade. This basic price may or may not coincide with the cost price. Selected skins from a given parcel purchased at a uniform price for a particular grade of shoe may, after sorting, be found to be suitable for a different grade of shoe from that which was originally intended when the skins were bought. A skin therefore purchased at 1s. 5d. per foot may possibly be issued to the clicking room at 1s. 6d. This difference of 1d. per foot is regarded as a profit on buying, and an upper leather reserve account is created for the purpose of showing all such profits and, of course, any losses which may be incurred by transactions of a converse nature.

The clicker is supplied with a cutting sheet on which is debited the value at basic price of each lot of skins issued to him, and the sheet is credited with the value of the component parts of the uppers cut from those skins at estimated cost, and a flat rate per pound for offal which will later be used for bars, backstraps, and so on.

By following the principle of debiting material at the same basic rates as those at which the cut uppers are credited, the cutting sheets will, theoretically, show neither profit nor loss if the clicker has cut the skins to the best advantage. In practice, differences do, of course, occur, and these differences constitute the measure of the clicker's skill in cutting in relation to the original estimate.

It is one of the functions of the cost office to determine the reason for any appreciable profit or loss disclosed on a cutting sheet, and having done so to take steps, in the case of a profit, to revise the estimate and reduce the selling price, or, in the case of a loss, return the cutting sheet to the clicking room foreman in order that the operative responsible may be dealt with as the circumstances may require.

Similar cutting sheets are prepared for the bottom stuff, and it will be seen, therefore, that an immediate check on waste or bad cutting is thus obtained in respect of the principal items of material cost.

GROUP SHEETS.

Before I deal with the accounts proper I must first explain to you the method by which the work is controlled on its journey through the factory. The foundation of this control is the group or day sheet, which constitutes the basis for all departmental output credits, and the work-in-progress inventory at each accounting period, as well as the plan or time-table for progressing work through the factory.

Each group sheet represents one half-day's work and is ruled so as to show, in addition to the quantity and description of each of the several lines of shoes making up the group, the date on which the work is received in the department, the date on which it leaves the department, the operative's name, the value of the material contributed by the department concerned at estimated

cost, the estimated cost of labour, and the amount of the expenses earned by that department.

In addition to the departmental group sheet there is a master group sheet, the cash columns of which give the total estimated cost of each line of shoes represented in the group.

From the group sheets are prepared all the necessary work-tickets, one of which goes with the work through the factory for identification purposes, the others being used, first as authorisations to the foremen for the components of the shoes to be got ready to meet the work, and secondly, for the purpose of wages. These latter are perforated to form coupons which are detached by the operative as the work is completed, put into a docket, and sent through to the cost office for the computation of the wages earned.

ACCOUNTS.

Turning now to the factory accounts, the first essential is that the financial books of prime entry should be so analysed as to give the requisite classifications of purchases, wages, factory expenses, and charges of administration and distribution.

Purchases of raw materials are posted monthly in detail from the analytical columns of the invoice journal to the debit of the respective stores accounts in the factory ledger, and material required is requisitioned by the foremen and debited to the departmental working accounts from the stores issued books, the corresponding credit entries being made in the appropriate stores accounts.

Productive wages are analysed in the wages books over the factory departments and non-productive wages are dissected under two heads, namely, (a) those which can be directly allocated to the departments, such as wages of foremen and departmental clerks, and (b) those which, by their nature, must be spread over the whole factory, such as salaries of factory management, timekeepers, storekeepers, &c. The productive wages, and also the non-productive, in so far as they can be definitely allocated to the departments, are posted from the wages books to the debit of the respective departmental working accounts. Those wages which must be spread over the whole of the departments are regarded as part of the general on-cost and posted to the debit of the factory expenses account.

The debit side of the expenses account is completed by the addition of the general expense charges which are scheduled at the end of each accounting period as the expenses are incurred.

These are allocated to the various rooms on the generally accepted principles: for example, rent and rates are charged according to floor space; electric light according to the number of points in each room; power according to the total horse power of the motors employed; lasts and knives according to the estimated consumption of each room; repairs to plant, depreciation and obsolescence, according to the value of machinery in each department; factory management and cost office salaries and wages according to the amount of direct wages paid, and so on. In addition, there are, or course, the wages of foremen and departmental clerks, &c., which are charged directly to the departments concerned.

Having compiled our schedule of the estimated annual expenses applicable to each department, one-fiftieth of the sum (there being 50 working weeks in the year) is charged weekly to the respective departmental working accounts and credited in total to the expenses account.

The departmental output credits are obtained from the group sheets which are passed weekly, to the cost office for the extension of each line at estimated cost.

In the general run of process cost accounting the finished article of one department or process becomes

the raw material for the next department, and it is therefore usual to debit department No. 2 with the output of department No. 1, the credits for each successive department being thus increased cumulatively by the output of every department preceding it.

Such a method would be found cumbersome and difficult to work in the shoe trade. The records are therefore simplified by confining each departmental working account to the transactions which relate solely to itself. The department is charged only with the material which is put into the shoes in that particular department, and the same principle is followed in connection with labour and expenses. Similarly, the departmental credits represent the estimated cost of material, labour and expenses appertaining only to the department concerned. These credits, instead of being transferred to the next department, are charged to an account specially created for the purpose, and known as the factory output account. This account is therefore debited with the output of all the departments, and credited with the estimated cost (obtained from the master group sheets) of the finished shoes as they leave the factory for the warehouse.

It will be obvious that there will always be a debit balance on this account, representing the value at estimated cost of work floating about the factory which has not been the subject of a separate stock-taking in the several departments.

At every periodical stock-taking the work-in-progress in each room is worked out on the departmental group sheets, material being taken at its estimated cost, labour at half value (on the assumption that every line of shoes in the room is half completed), and expenses at the predetermined percentage on direct labour. These figures, added to the debit balance on the factory output account give, theoretically, the total value of the work-in-progress at any time.

The greatest possibility of error lies in the factory output account, which, of course, carries the bulk of the work-in-progress. The balance on this account can only be checked by a physical stock-taking, and it is therefore very desirable that some independent tests of its accuracy should be made from time to time. If, for any reason, the factory output of finished goods were understated, the effect, of course, would be to show an inflated balance of work-in-progress on the account. Occasions have been known when, in order to accelerate the progress of a specially urgent order through the factory, it has been added to a group already half-way on its journey. This is bad from every point of view except the customer's, as it is apt to over-burden the departments and generally dislocate the routing of other work through the factory. Moreover, there is the danger of omitting to record these added lines on the master group sheet (which should, in ordinary circumstances, be prepared at the same time as, and be a duplicate of, the departmental group sheet), resulting in an understatement of the factory output. This would produce serious consequences. While the departments would receive their proper credit for such orders, the corresponding debit being duly made in the factory output account, the latter account would fail to receive its credit when the goods were completed and despatched, and the result would be an inflated value of work-in-progress, which might never be detected by a mere inspection of the figures.

The surest way of obviating such errors is to insist upon the rigorous observance of the rules relating to the routing of the work, and on no account to allow special orders to interfere with the scheduled progress of the ordinary work through the factory.

As an approximate test of the accuracy of the work-in-progress, however, at each accounting period the average value per pair of all the shoes in the factory may be worked out by dividing the sterling value of the work-in-progress as shown by the departmental accounts by the total number of pairs in the factory at the time. This average value must, of necessity, fluctuate, according to season and the class of shoes being produced, and the pairs test, therefore, can only be very approximate; but the cost accountant can, by his knowledge of the trend of prices of raw materials and the basic price estimates of the types of shoes being manufactured at any time, form a sufficiently sound opinion as to whether any serious discrepancy exists.

After inserting the work-in-progress in the departmental accounts, the balance, representing profit or loss under the heads of Material, Labour and Expenses, is transferred to the factory profit and loss account.

Under the head of Material, if the estimates have been reliable and the cutting sheets carefully watched, there should be little chance of a loss being sustained.

With regard to labour, losses, generally speaking, will only be incurred by reason of short-time being worked in those departments in which day rates prevail in whole or in part.

Under the head of Expenses, the accounts will, obviously be seriously affected if the actual output falls short of the estimated basic output. In addition, there may be an under-appropriation of expenses shown by the factory expenses account, which, you will remember, is debited with the actual expenses incurred, and credited with the budgetted weekly appropriation to the several departments.

The double-entry in the factory ledger is effected by opening totals accounts for purchases and wages, posted from the financial books of prime entry, and a total expenses account, with which I have already dealt.

A balance account is also opened for the purpose of closing the ledger. To the credit of this account are transferred the balances of the total purchases account, after bringing in the closing stock, the total wages account, and the profit and loss account. The expense charges are also credited to this account, the corresponding debit entries being made in the total expenses account.

This latter account usually shows a balance representing the amount of expenses under or over-appropriated during the period, and this balance is transferred direct to the profit and loss account.

The factory output of finished productions, which is credited to the factory output account, finds its corresponding debit in the balance account, the two sides of which, after the insertion of the total work-in-progress shown by all the working accounts, should now agree.

The factory ledger is now closed, the only balances remaining open being those on the stores accounts, representing stores on hand, which should, in the aggregate, agree with the balance on the total purchases account; and the balances of work-in-progress on the departmental and manufacturing operations accounts, which, in the aggregate, should agree with the balance brought down on the balance account.

Before I close the manufacturing section (which is the principal section) of this paper, I ought, perhaps, to say a word or two about the stores records.

The stores consist of upper and bottom leathers; silk, satins, brocades, tinsels, &c.; wood heels; and works engineers' and general factory stores. Each store has its own account in the factory ledger, and all issues therefrom are requisitioned by the foremen of the departments.

Detailed stores records are kept by the storemen on the visible card index system, and these are written up from the invoices and requisition notes. From time to time, individual card records are checked with the actual stock held. For periodical accounting purposes, however, the balances on the stores accounts, after having debited all purchases and credited all issues from the stores issued books, are adopted as the stores on hand at any time. This figure is checked at June 30th in each year with an inventory compiled from the stores record cards, and at the end of the year by the physical stock-taking.

TRADING SECTIONS.

I have now dealt with all the principal records relating to shoe costings up to the point of total factory cost, which becomes the purchase price to the trading sections of the business.

The expenses of administration and distribution must, of course, be covered in our estimates, and these, based on past experience, with any necessary modifications to suit altered conditions, together with that infinitesimal and elusive thing known as net profit, are expressed as a percentage on the amount of the estimated total sales for the season.

In order to sectionalise the accounts of the trading organisations of the business, a departmental ledger is kept, quite separately from the ordinary financial books, containing the whole of the real and nominal accounts of the business, classified as required to give sectional results. The transactions recorded in the books of prime entry are thus posted twice—once to the financial ledgers and again to the departmental ledger—the reference folios in the latter case being made in red ink.

The various distributive and administrative expenses are charged to their appropriate accounts in the departmental ledger as they are incurred, and at the end of each accounting period the proportion accrued is written off to the respective sectional profit and loss accounts. This is a budgetted figure, except in those cases where the expenses are incurred from day to day, or from week to week, such as wages and salaries, postages, carriage, national insurance, travelling expenses, &c., when the actual debit balance on the account is transferred.

Thus, on the debit of each expense account are shown the expenses as they are incurred, and on the credit the bi-monthly appropriations to the sectional profit and loss accounts.

If, as the year proceeds, any account becomes abnormally in debit, or in credit, the appropriation is revised accordingly.

Certain expenses may require special consideration and treatment. For example, a large proportion of the advertising expenditure will probably be spent in the first two or three months of the year, but it would be obviously unfair to charge the whole of that expenditure in the accounts for the first three months, since the results to be obtained from the advertising would not appear until a later period. In such a case, the charge made in the profit and loss account for any particular accounting period is regulated by the turnover for that period, having regard to the total estimated advertising expenditure for the year in relation to the estimated turnover for the year.

So far as is possible the expenses are appropriated to the several trading sections by analysis. Where this cannot be done, however, they are split according to sales or other reasonable basis, having regard to the nature of the expense.

Stocks of finished goods are so sectionalised that the various lines can be taken down physically with comparative ease at the end of each accounting period.

As you all know, in most businesses the greatest obstacle to the preparation of periodical accounts is invariably the ascertainment of the value of stock-in-trade, including work-in-progress. I have endeavoured to show you how we have overcome that difficulty and now have a system which not only provides an effective check on factory costs without unnecessary expense, but which also simplifies the preparation of periodical accounts relating to every trading section of the business, including the compilation of a complete balance sheet from period to period.

Scottish Notes.

(FROM OUR CORRESPONDENT.)

Glasgow Students' Society.

The annual meeting of this Society was held on the 8th ult. Mr. W. Davidson Hall, F.S.A.A., presided over a good attendance of members, and was supported by Mr. James Paterson, Secretary of the Scottish Branch, Mr. J. C. McMurray, F.S.A.A., Kilmarnock, and Mr. C. M. Vance, A.S.A.A., Honorary Secretary of the Students' Society. Apologies for absence were intimated from Mr. Alfred Palmer, Vice-President of the Students' Society, and others.

Before proceeding with the business of the meeting, a motion was passed expressing the sincere sympathy of the members with Mr. Robert Fraser, Honorary Treasurer, on his very great bereavement by the death of his wife that day. The Committee's report showed that during last session there had been several meetings, and lectures by members of the Society in Glasgow, which were much appreciated, although in some instances the attendance was not as large as should have been. Several golf matches had been arranged, and these were largely taken advantage of. Arrangements were in progress for next session for, if possible, a fuller syllabus, and it was hoped that the efforts of the Committee would prove specially suitable to examination candidates. The finances were in a satisfactory condition.

Mr. Davidson Hall, in moving the adoption of the report, referred to the satisfactory position of the Society, and expressed the hope that the meetings next session would be fully taken advantage of. A general discussion followed, in the course of which several members urged the desirability of the lectures and papers read being on the lines of the examinations as far as possible. The report and accounts were adopted.

Mr. James Paterson referred to the loss sustained by the Society by the premature death of the President, Mr. A. R. Weir, and thereafter moved that Mr. W. Davidson Hall be elected President of the Society for the ensuing year. This was seconded by Mr. E. H. Harris, and cordially agreed to.

The following other appointments were made: Mr. D. Hill Jack, J.P., F.S.A.A., Honorary President; Mr. Robert T. Dunlop, F.S.A.A., and Mr. J. S. Gavin, F.S.A.A., Honorary Vice-Presidents. The following to form the Executive of the Society: Mr. W. Davidson Hall, F.S.A.A., President; Mr. Alfred Palmer, A.S.A.A., Vice-President; Committee: Mr. James Paterson, F.S.A.A., Mr. J. C. McMurray, F.S.A.A., Mr. A. B. Marshall, A.S.A.A., Mr. W. T. Port, A.S.A.A., Mr. Thomas Tinto, A.S.A.A., Mr. A. M. Shaw, A.S.A.A., and Mr. E. H. Harris, with Mr. C. M. Vance, A.S.A.A., Honorary Secretary, and Mr. Robt. Fraser, F.S.A.A., Honorary Treasurer.

The meeting took into consideration a proposal to form a golfing section of the Society, and it was remitted to a small sub-committee to formulate rules and make the necessary arrangements. It was reported that Mr. R. T. Dunlop had offered a cup for competition amongst the members of the Society. Mr. Dunlop was thanked for

his generous interest in the Students' Society and for his gift of a cup.

The meeting closed with a cordial vote of thanks to Mr. Davidson Hall for presiding.

Examinations—Glasgow Centre.

The examinations at the Glasgow Centre, which were attended by thirty-six candidates, were in charge of Mr. James Paterson, Secretary of the Scottish Branch, assisted by Mr. J. Hawthorne Paterson, A.S.A.A., and Mr. W. Hill Jack, F.S.A.A. In the course of the examinations Mr. W. Davidson Hall, F.S.A.A., one of the Vice-Presidents of the Scottish Branch, paid a visit to the examination room.

Civil Service Erudition.

The British Civil Service has long been famous for the erudition of many of its members. From the time of Pepys down to the present day the service has had many men who attained to eminence in various departments of literature and science, and, in a lesser degree, in the arts, but it remained for a member of this august service in a small Scottish town to bamboozle a Scottish Bailie. The facts are these: On a certain day in April the chimney of a private house went on fire. Such a happening is not unknown in the best regulated households, but as this house was part of a semi-detached villa there was some doubt as to whose chimney was the offender, so some half-a-dozen local officials were called to the case. By calling down the various chimneys of the property they located the offending chimney in the house of the civil servant, who was duly cited to appear at the Police Court, charged with "permitting a chimney to be on fire." It transpired that, by a strange coincidence, the same chimney went on fire on precisely the same date last year.

The defence was that starlings built their nest in this chimney every year; that they started operations on exactly the same date each year; that the probabilities of a fire happening in any other way than by a bird's nest was as 378,413,760 was to 1; that starlings built a large nest, the foundation of which was sticks and branches; that by inefficient building sticks were left extending into the chimney and thereby caught fire; and that, in these circumstances, the defendant pleaded that he could not be properly charged with "permitting his chimney to be on fire." Besides, he pointed out to the magistrate, the word "permit" was derived from the Latin meaning "through," and "mitto" "I send." To "permit" meant that he did willingly allow his chimney to go on fire, which he denied.

In dismissing the case, the Bailie, a local tradesman, complimented the defendant on the very able manner in which he had stated his case, which showed the advantages of a sound and varied education.

The Accountant of Court.

Mr. Oliver Gilmour Elliot, M.A., C.A., has been appointed Acting Chief Clerk in the office of the Accountant of Court. Mr. Elliot, who served in the War, served his apprenticeship with one of the leading firms of Chartered Accountants in Edinburgh, and joined the staff of the Accountant of Court in 1921.

Local Government Officers.

The annual conference of the National Association of Local Government Officers was held in Edinburgh on the 23rd ult. and subsequent days, and was attended by between 700 and 800 delegates. Mr. A. F. Johnson, ex Town Clerk of Hampstead, presided, and the meeting was addressed by Mr. William Graham, M.P., President of the Board of Trade, Mr. Isaac Foot, M.P., Mr. H. M. Gibson, M.P., and others. During the proceedings on

Saturday the Lord High Commissioner to the Church of Scotland, Mr. James Brown, M.P., addressed the meeting, and in the course of his remarks said that Local Government officials had more power than Members of Parliament. The President for the ensuing year is Mr. Samuel Lord, F.S.A.A., Borough Treasurer, Acton.

Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, e.g. (1925) 2 K.B. :—

T.L.R., *Times Law Reports*; *The Times*, *The Times Newspaper*; L.J., *Law Journal*; L.J.N., *Law Journal Newspaper*; L.T., *Law Times*; L.T.N., *Law Times Newspaper*; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Sessions Cases (Scotland)*; S.L.T., *Scottish Law Times*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace (England)*; L.G.R., *Knight's Local Government Reports*; B. & C.R., *Bankruptcy and Company Cases*.

The other abbreviations used in modern reports are H.L., House of Lords; A.C., Appeal Court (House of Lords and Privy Council); C.A., Court of Appeal; Ch., Chancery Division; K.B., King's Bench Division; P., Probate, Divorce and Admiralty Division; C.S., Court of Session (Scotland); J., Mr. Justice (King's Bench or Chancery); L.J., Lord Justice; L.C., Lord Chancellor; M.R., Master of the Rolls; N.I., Northern Ireland; P., President of Probate, Divorce and Admiralty.]

COMPANY LAW.

In re Debenture Corporation, Limited.

Evidence on Alteration of Memorandum.

On the hearing of a petition of a company for the confirmation of an alteration of the memorandum with respect to its objects, it is not necessary to produce the register of members in evidence, it is sufficient if there is an affidavit by the secretary proving that the register was duly kept and contains the name and last known address of every person who was a member of the company on the material date.

(Ch.; (1931) W.N., 116.)

INSOLVENCY.

Rex v. Dandridge.

Keeping Books of Account.

Under the Bankruptcy (Amendment) Act, 1926, sect. 7, any person adjudged bankrupt or against whom a receiving order has been made, will be guilty of a misdemeanour if, having been engaged in trade or business during any period in the two years preceding the presentation of the bankruptcy petition, he has not kept proper books of account, unless he proves that in the circumstances in which he traded or carried on business the omission was honest and excusable.

An omission to keep books of account though "honest" may not be "excusable."

(C.C.A.; (1931) 22 Cr.App.R., 156.)

REVENUE.

Mann v. Cleaver.

Time Limit for Collection of Income Tax.

On December 19th, a collector of taxes commenced summary proceedings to enforce payment of an instalment

of income tax payable "on or before" the preceding July 1st. The first demand note in respect of the instalment in question had been issued on June 12th. The magistrate dismissed the case on the ground that the period of six months within which the proceedings should have been commenced ran from June 12th.

It was held that proceedings could be commenced within six months from July 1st.

(K.B.; (1931) 15 T.C., 367.)

Todd v. Jones Brothers.

Date of Succession.

During March, 1928, there were negotiations and correspondence between the respondent company and another company who were proposing to purchase the business of the respondent company, culminating in a letter dated March 21st, 1928, in which the prospective purchasers indicated that the terms contained in the correspondence, and as arranged at interviews between the parties, were generally accepted "subject to such terms being fully set out in a formal contract or agreement, to be submitted to us and finally approved of." The formal contract was dated April 16th, 1928.

The respondent company were assessed for the year 1927-28 in accordance with the provisions of rule 11 (2) of sect. 32, Finance Act, 1926, on the footing that the succession took place after April 5th, 1928. The General Commissioners allowed their appeal against this assessment, finding that a contract for the sale and purchase of the business existed before April 6th, 1928. The Crown appealed.

It was held that the correspondence did not constitute a contract, and that there was no evidence of a *de facto* succession before April 6th.

(K.B.; (1931) 15 T.C., 396.)

Adams v. Musker.

Earned Income Allowance.

The appellant made, under deduction of income tax, certain annual payments which were charged upon his total income. His income consisted of a salary and unearned income taxed at the source. The charges exceeded the taxed income. He claimed that in the assessment of his salary for the year 1927-28 he was entitled to an earned income allowance of one-sixth of the whole amount of his salary. He was given an allowance of one-sixth of the amount of his salary remaining after deducting the amount by which the charges exceeded the taxed income.

It was held that the earned income allowance was rightly computed on the amount of salary remaining after deduction of the charges treated as paid out of it.

(K.B.; (1931) 15 T.C., 413.)

Stedford v. Beloe.

Pension.

The headmaster of a school resigned and the council of the school granted him a pension of £500 a year. There was no method by which he could have qualified for a pension, and the council had the right at any time to cease making the payment to him.

It was held by the Court of Appeal, affirming the decision of Rowlatt (J.) (see *Incorporated Accountants' Journal*, February, 1931, p. 204), that the pension was not subject to income tax.

(C.A.; (1931) 47 T.L.R., 408.)